AR16

1994
Annual Report

IPL
Energy Inc.

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Mail this response card if you are a Beneficial Shareholder

1995 IPL Energy Inc.

	1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.
Dividend Record Date to receive a dividend shares must be recorded in the register of shareholders on	Feb. 13	May 15	Aug. 15	Nov. 21
Dividend Payment Date dividends are payable to shareholders, and Dividend Reinvestment and Share Purchase funds are invested by the Corporation on	Mar. 1	June 1	Sept. 1	Dec. 1
Share Purchase Cut-off Date share purchase payments must be received by The R-M Trust Company by	Feb. 22	May 25	Aug. 25	Nov. 24
cheques should be dated	Mar. 1	June 1	Sept. 1	Dec. 1

Annual Meeting – Metropolitan Convention Centre, Calgary, May 4, 1995

The declaration of dividends and the dates shown are subject to change at the discretion of the Board of Directors. The Corporation reserves the right to amend, suspend or terminate the Dividend Reinvestment and Share Purchase Plan. Shareholders will be notified in writing of any changes.

Please send me more information on

The IPL Energy Inc. Dividend Reinvestment and Share Purchase Plan that enables me to reinvest my cash dividends in additional common shares at a 5% discount to the market price, and to make optional cash payments to purchase additional shares at the market price. I understand that in either case the transactions are free of brokerage or other charges.

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CITY PROVINCE

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If you are a non-registered shareholder whose shares are held in the name of a broker or other financial intermediary, and you wish to receive interim financial statements on a regular basis, please sign and mail this card. Your name will be placed on a supplemental mailing list to receive these materials. If you are a registered shareholder, that is, your shares are registered in your name, there is no need to complete this card as these materials will be mailed to you automatically.

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IPL Energy Inc.

Dividend Cheques are normally mailed three to five days prior to the **payment or investment** dates.

Quarterly statements for Dividend Reinvestment and Share Purchase participants are normally mailed two weeks after the **payment or investment** dates.

Shareholder enquiries regarding the Dividend Reinvestment and Share Purchase Plan, change of address, share transfer, lost certificates, dividends and duplicate mailings should be directed, as appropriate, to the following:

Registrar and Transfer Agent in Canada

The R-M Trust Company
393 University Avenue
Fifth Floor
Toronto, Ontario, Canada
M5G 2M7
Telephone (416) 813-4600
Toll Free (800) 387-0825

Co-Registrar and Co-Transfer Agent in the United States

Chemical Bank
450 West 33rd Street
New York, New York, U.S.A.
10001
Telephone (212) 613-7200
Toll Free (800) 851-9677

Shareholder inquiries regarding the Corporation's financial and operating performance, and its growth prospects, should be directed to:

Manager, Investor Relations
IPL Energy Inc.
3100, Bow Valley Square II
205 – 5 Avenue S.W.
Calgary, Alberta, Canada
T2P 2V7
Telephone (403) 231-3906
Toll Free (800) 481-2804

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0271703499 01

0271703499-T2P4P4-BR01

THE CORPORATE SECRETARY
IPL ENERGY INC
C/O THE R-M TRUST COMPANY
PO BOX 2517 STN M
CALGARY AB T2P 9Z9

MAIL POSTE
Canada Post Corporation
Société canadienne des postes
Postage paid / Port payé
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Business Reply / Réponse d'affaires
0271696899 01

0271696899-T2P2V7-BR01

THE CORPORATE SECRETARY
IPL ENERGY INC
3100-205 5 AVE SW
CALGARY AB T2P 9Z9
CANADA

The Foundation for Growth

IPL Energy Inc.'s combination of two strong regulated entities, The Consumers' Gas Company Ltd., Canada's largest natural gas distribution company, and Interprovincial Pipe Line Inc., operator of the world's longest crude oil and liquids pipeline system, provides the springboard for future opportunities. Their significant and growing cash flows support IPL Energy and provide the foundation for additional growth in North America and internationally.

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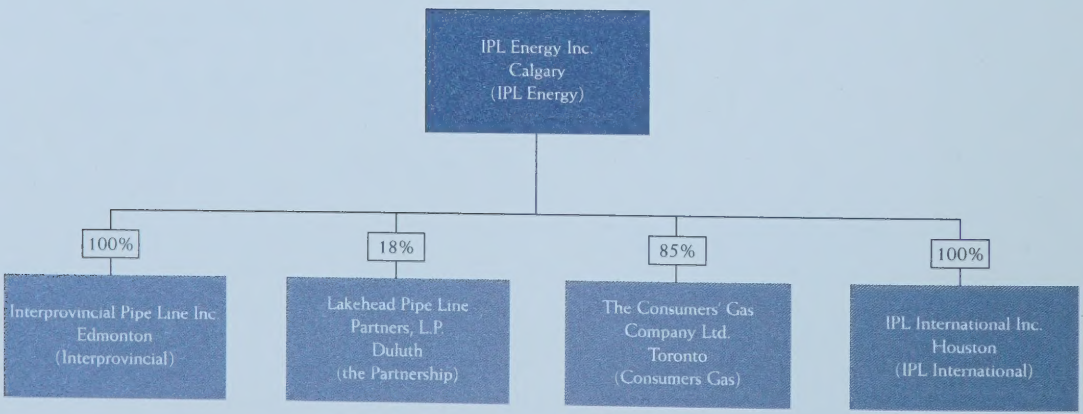
Corporate Profile

IPL Energy Inc. is engaged in the transportation of liquid hydrocarbons and the distribution of natural gas. In Canada, the petroleum pipeline business is conducted through the wholly owned subsidiary, Interprovincial Pipe Line Inc. of Edmonton, Alberta. Wholly owned Lakehead Pipe Line Company, Inc. of Duluth, Minnesota, holds an 18% interest in the portion of the pipeline system located in the United States through its ownership in Lakehead Pipe Line Partners, L.P. Together these entities operate the world's longest crude oil and liquids pipeline system, extending across North America from western Canada to marketing and refining centres in the midwestern United States and eastern Canada. The natural gas distribution business is conducted through an 85% owned subsidiary, The Consumers' Gas Company Ltd. of Toronto, Ontario, which serves over 1.2 million residential, commercial and industrial customers in south central and eastern Ontario and upper New York State. Wholly owned IPL International Inc. of Houston, Texas, takes the lead role in developing international business opportunities, with support provided by the other corporate entities.

With assets in excess of $5 billion and over 4,800 employees, IPL Energy maintains its registered office in Calgary, Alberta. Its common shares are listed on the Toronto and Montreal stock exchanges in Canada under the symbol "IPL", and on the NASDAQ-NMS in the United States under "IPPIF".



Financial

(dollars in millions, except per share amounts)	1994	per share	1993	per share
Earnings before acquisition of Consumers Gas	**88.5**	**2.21**	80.8	2.03
Earnings	**43.6**	**1.09**	80.8	2.03
Cash provided from operating activities	**199.7**	**4.98**	133.9	3.36
Dividends	**80.2**	**2.00**	79.8	2.00

Operating

(dollars in millions)	1994	1993
PIPELINE		
Operating revenue	**397.4**	395.2
Capital expenditures	**279.1**	82.9
Deliveries (thousands of barrels per day)	**1,532**	1,497
Barrel miles (billions)	**350**	346
Average haul (miles)	**625**	634
GAS DISTRIBUTION [1]		
Operating revenue	**194.1**	–
Capital expenditures	**97.5**	–
Gas distribution volumes (billion cubic feet)	**44.4**	–
Number of active customers (thousands)	**1,219**	–
Degree day deficiency[2] (degrees celsius)	**104**	–

1 The highlights of gas distribution activities reflect the results of The Consumers' Gas Company Ltd., and other gas distribution assets for the period July 1 to September 30, 1994.

2 Degree day deficiency is a measure of coldness. It is calculated by accumulating for each day in the fiscal period the total number of degrees by which the daily mean temperature fell below 18 degrees celsius. The figures given are those accumulated in the Toronto area.

To the Shareholders

Three years ago, the Board of Directors authorized a number of actions to ensure continued growth for shareholders in the face of a changing environment for crude oil pipeline operations. Some of these actions focused on methods to maximize opportunities in the maturing North American oil industry. Additional actions addressed broader goals of expanding into areas of business compatible with existing strengths and capabilities, and entering the international arena to take advantage of the growing demand for pipeline expertise.

1994 ACHIEVEMENTS

It is gratifying to report that many of the essential measures required to meet planned growth objectives were accomplished in 1994. Of particular note was the $1.2 billion acquisition of an 85% interest in The Consumers' Gas Company Ltd. of Toronto, which created a combined entity with assets in excess of $5 billion and over 4,800 employees.

The acquisition of Canada's premier natural gas distribution company represents an exciting and logical extension of pipeline skills to a related business, and establishes a presence in the expanding natural gas distribution sector that provides the long term potential to enhance shareholder value through increased earnings. Since the close of the transaction on June 30, 1994, the relationship between IPL Energy and Consumers Gas continues to evolve in a positive and mutually beneficial manner.

In late 1994, IPL Energy announced its participation in the U.S.$2 billion Cusiana crude oil pipeline project in Colombia, the first of a number of planned international endeavours. Having begun the search for international investments less than three years ago, the ability to secure a 17.5% ownership interest in a venture the magnitude of the Colombia oil pipeline project confirms the high regard that foreign governments and business partners have for IPL Energy's financial, technical and operating competence, particularly the ability to transport multiple crude oil types in segregated batches. IPL Energy will operate the pipeline jointly with a Canadian partner. The Cusiana project is expected to make an important contribution to earnings.

At the same time, IPL Energy remains responsive to opportunities within its existing business sphere. Though the maturity of western Canada's oil basin lessens the probability of major new discoveries, the oil industry has become much more effective in exploiting the existing oil resource base through improved technology. As a result, Canadian oil production has increased in recent years, creating the opportunity for IPL Energy's Canadian and United States operating companies to respond to the needs of shippers for greater pipeline capacity with a $430 million expansion program. This program, which was completed in November 1994, ahead of schedule and under budget, provides an important and ongoing contribution to earnings.

Excluding the impact of the Consumers Gas acquisition, IPL Energy's 1994 earnings advanced 10% to $88.5 million, or $2.21 per common share. The increase reflected the strong performance of

pipeline operations which achieved record deliveries of 1,532,000 barrels per day of crude oil and liquids in 1994. With inclusion of the acquisition, 1994 earnings, as expected, declined to $43.6 million, or $1.09 per common share. The anticipated decline resulted from combining a loss quarter from gas distribution operations – due to the seasonality of Consumers Gas' business – with six months of financing costs. This one time occurrence has no impact on the value or earnings power of the assets acquired. In 1995 and beyond, the acquisition is expected to have a positive and growing impact on IPL Energy's financial results.

THE FUTURE

The combination of two strong regulated entities, Consumers Gas, Canada's largest natural gas distribution company, and Interprovincial Pipe Line Inc., operator of the world's longest crude oil and liquids pipeline system, provides the springboard for future opportunities. Their significant and growing cash flows support IPL Energy and provide the foundation for additional growth in North America and internationally.

The companies enjoy growing asset bases and the financial capacity to pursue opportunities aggressively. Consumers Gas anticipates capital expenditures of $1.5 billion over the next five years. These expenditures will be directed in large measure toward customer additions, as well as to improvements and replacements of existing facilities and provide for the growth of rental equipment operations. Customers look to natural gas as a cost effective and efficient solution to their energy requirements, resulting in a significant number of conversions from oil and electricity. As well, natural gas continues to be the fuel of choice in new home construction. Additional growth is provided by expanding the natural gas service into new areas.

Interprovincial will benefit from planned maintenance capital expenditures of $0.5 billion over the same five year period. In addition, even with the completion of the Capacity Expansion Program, the volume of western Canadian oil nominated for shipment continues to exceed pipeline capacity, indicating the possible need for a further modest expansion.

Positive events transpiring in the Canadian regulatory environment also have the potential to benefit the pipeline company. Building on the success of its 1994 negotiated toll settlement, Interprovincial has turned its attention to establishing an ongoing incentive tolling methodology that would be the first in Canada. Under the new methodology, the provision of incentives to maximize capacity utilization and minimize costs creates an opportunity to earn more than the

B.F. MacNeill
PRESIDENT & CHIEF EXECUTIVE OFFICER

allowed rate of return otherwise established by the National Energy Board. Shippers would also benefit through lower tolls arising from the ability to share in cost savings. If approved by the NEB, it would be the first time in Canada that a regulated company has arrived at a multi year, incentive toll agreement with its customers. The agreement is expected to attract the attention of other regulated businesses and regulators, at both the federal and provincial government level, seeking ways to streamline the regulatory process and increase efficiency.

Pipeline operations in the United States are expected to benefit from the introduction of a new indexing methodology that went into effect January 1, 1995. The methodology simplifies the regulatory process while creating incentives to maximize capacity utilization and control costs.

IPL Energy's dividend of $2.00 per common share has been maintained despite the high payout ratio relative to earnings during the past three years. In 1995, earnings are anticipated to rebound to a level comfortably above the dividend and the payout ratio is expected to be restored to a more appropriate level.

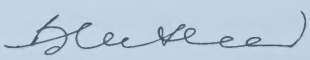
The payment of the second instalment on the Convertible Debentures became due March 1, 1995. The Board of Directors welcomes the holders of the 15 million common shares issued upon conversion.

The Board also welcomes the 3,800 employees of Consumers Gas to the IPL Energy group of companies. Appreciation is also extended to all employees whose dedication and willingness to embrace change continue to move IPL Energy forward in pursuit of its growth objectives.

IPL Energy looks to 1995 and beyond with confidence. The Corporation remains in the forefront of important changes unfolding in the regulatory environment and alert to new opportunities, both domestically and internationally, that are consistent with gas distribution and oil pipeline expertise.

On behalf of the Board of Directors

H.G. MacNeill
CHAIRMAN



B.F. MacNeill
PRESIDENT & CHIEF EXECUTIVE OFFICER
MARCH 15, 1995

In 1994, IPL Energy completed key steps in its strategy to enhance shareholder value through growth opportunities. In addition to the completion of the capacity expansion of the Interprovincial and Lakehead pipeline systems, the Corporation became a significant player in the rapidly expanding market for natural gas with its acquisition of Consumers Gas. The combination of quality earnings and expertise in energy transportation and distribution provides a strong base to pursue international investment opportunities.

International
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Gas Distribution
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". . . Having begun the search for international investments less than three years ago, the ability to secure a 17.5% ownership interest in a venture the magnitude of the Colombia oil pipeline project confirms the high regard that foreign governments and business partners have for IPL Energy's financial, technical and operating competence, particularly the ability to transport multiple crude oil types in segregated batches . . ."

Participation in international business ventures represents a significant growth opportunity to IPL Energy. The acquisition of Consumers Gas furthers this endeavour by enabling IPL Energy to internationally display expertise in both oil pipelines and gas distribution. In 1994, IPL Energy formalized its international business development organizational structure by establishing IPL International Inc. in Houston. IPL International coordinates all international business initiatives, with support provided by IPL Energy's other business units. Two other entities provide international training and consulting services in both pipeline transportation and gas distribution.

IPL Energy approaches these international opportunities in a cautious and systematic manner in order to ensure that projects are consistent with the overall growth strategy and that inherent risks are mitigated to acceptable levels.

Since commencing the search for international projects less than three years ago, the Corporation has considered over two dozen different projects in several regions of the world, including South America, Southeast Asia, Australia and the former Soviet Union.

COLOMBIA OIL PIPELINE PROJECT

In 1994, the Corporation finalized its participation in its first international endeavour, the Cusiana oil pipeline project in Colombia, South America. The pipeline will carry crude oil from the Cusiana and Cupiagua oilfields in central Colombia, which contain estimated recoverable oil reserves of approximately two billion barrels, to the port of Coveñas on the Caribbean coast of Colombia. The project will combine both new and existing facilities and will be completed in phases as production of the oilfields increases. Design capacity of the line is expected to increase over each phase of the project, rising from an estimated 150,000 barrels per day before the end of 1995 to 500,000 barrels upon expected completion in 1997. The total cost of the project, including port storage and loading facility upgrades, is projected to be U.S.$2 billion.

In September 1994, IPL Energy signed a Memorandum of Understanding with five other parties to proceed with the formation of a company to invest in and operate the project. In December, an ownership agreement was reached, and initial

equity contributions were made. IPL Energy and TransCanada PipeLines Limited of Calgary will act jointly as operators of the pipeline, with each holding a 17.5% equity interest in the project. The other parties to the agreement are enterprises which hold production interests in the Colombian oilfields: Ecopetrol, the state owned oil company of Colombia, as well as three major international oil companies, British Petroleum (U.K.), Total (France) and Triton (U.S.).

IPL Energy's share of equity to be invested in the project, including the initial injection of U.S.$15 million made in December, is estimated to be in excess of U.S.$100 million. It is expected that the project will make a significant and growing contribution to consolidated earnings as each phase is completed and invested equity increases.

Cusiana Oil Pipeline Project

". . . The acquisition of Canada's premier natural gas distribution company represents an exciting and logical extension of pipeline skills to a related business, and establishes a presence in the expanding natural gas distribution sector that provides the long term potential to enhance shareholder value through increased earnings . . ."

On June 30, 1994, IPL Energy completed its $1.2 billion acquisition of 85% of the outstanding common shares of The Consumers' Gas Company Ltd. of Metropolitan Toronto. Consumers Gas is a natural gas distribution utility serving over 1.2 million residential, commercial, industrial and other customers in central and eastern Ontario, as well as northern New York State through its wholly owned subsidiary, St. Lawrence Gas Company, Inc. As part of the transaction, IPL Energy also acquired the assets of Gazifère Inc., a utility serving southwestern Québec.

Service Areas

- Consumers Gas
- St. Lawrence Gas
- Gazifère

The popularity of natural gas in the markets served by Consumers Gas has grown significantly in recent years. The outlook for future expansion in both the core and ancillary businesses combined with the benefits of expertise in the gas distribution field, made the acquisition of Consumers Gas a key element of IPL Energy's overall growth strategy. Consumers Gas anticipates capital expenditures of $1.5 billion over the next five years primarily related to customer growth, increasing demand for rental equipment and improvements and replacements of existing facilities.

OPPORTUNITIES FOR GROWTH

As a result of system expansion, new construction and conversions from other fuels such as oil and electricity, Consumers Gas added more than 41,000 customers in 1994. Conversions from other fuels were particularly active in 1994, resulting in the highest number of customer additions in this sector since 1985, the last year of the Canadian Oil Substitution Program. Gas distribution volumes, which are sensitive to the number of customers and the weather in the franchise area, have also grown since 1990 and reached a record level of 417 billion cubic feet in 1994. The recognition of natural gas as a safe, reliable and preferred fuel enhances future growth prospects.

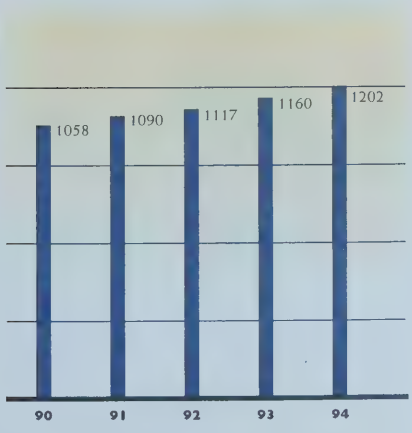
In the residential market, conversions to natural gas from alternate fuel sources continue to be a

major source of new customer additions. This trend reflects an average price advantage, on an equivalent annual volume basis, of over 50% against electricity and 25% against domestic fuel oil. New residential construction has also proven to be a significant source of new customers, with natural gas being the fuel of choice in over 90% of the new homes constructed in the Consumers Gas franchise area in recent years. As the Consumers Gas system continues to be expanded into previously unserved areas, as well as traditionally all-electric subdivisions, the potential for future customer additions increases.

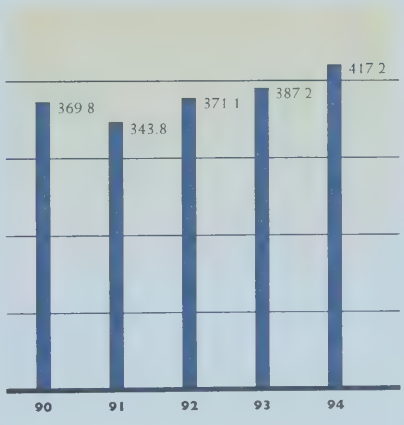
In the industrial/commercial sector, cogeneration projects are expected to continue attracting high volume users of natural gas. The process of cogeneration results in the simultaneous production of electricity and heat, most commonly by natural gas powered turbines and engines, resulting in more efficient energy use. For both environmental and economic reasons, the process continues to gain popularity with customers. In addition, the phase out of chlorofluorocarbon (CFC) refrigerants that will take effect December 31, 1995, has created a strategic opportunity for commercial air conditioning projects using natural gas fired cooling units. Consumers Gas is positioning itself to participate in the further development of cogeneration and cooling projects.

Significant growth potential also exists in Consumers Gas' ancillary businesses, especially in the rental and sale of natural gas appliances. In 1994, following a concerted effort to raise customer awareness of the benefits of natural gas appliances, Consumers Gas recorded significant growth in the sale and installation of appliances. In the rental market, customers continue to replace electric water heaters with natural gas units, with over 155,000 new water heaters installed over the past three years. The popularity of natural gas appliances including fireplaces, ranges, dryers and water heaters continues to expand the use of natural gas in applications over and above natural gas central heating.

The Consumers' Gas Company Ltd.
Number of Active Customers – Year End
(thousands)



The Consumers' Gas Company Ltd.
Volume of Gas Distributed
(billion cubic feet)



". . . IPL Energy remains responsive to opportunities within its existing business sphere . . . Canadian oil production has increased in recent years, creating the opportunity for IPL Energy's Canadian and United States operating companies to respond to the needs of shippers for greater pipeline capacity with a $430 million expansion program . . ."

IPL Energy has been engaged in the transportation of crude oil and liquids since 1949. The Canadian portion of the main system (the IPL System) is owned and operated by Interprovincial Pipe Line Inc. of Edmonton. The portion of the system in the United States (the Lakehead System), in which the Corporation holds an 18% equity interest, is operated by Interprovincial's wholly owned subsidiary, Lakehead Pipe Line Company, Inc. of Duluth. The operationally integrated system extends over 2,300 miles and delivers approximately 70% of western Canadian petroleum production to refineries in the Prairies, the Great Lakes region of the United States, and eastern Canada. A third system, the IPL(NW) System, located in northern Canada, is owned and operated by another wholly owned subsidiary of IPL Energy.

CAPACITY EXPANSION

In November 1994, the Corporation completed a 170,000 barrels per day expansion of the Interprovincial and Lakehead Systems, the largest expansion undertaken in a decade. The Capacity Expansion Program was completed ahead of

Pipeline System

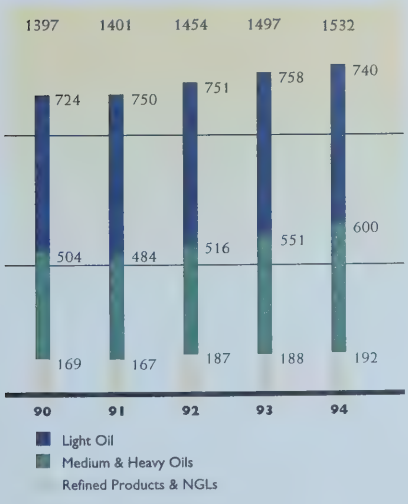
—— Existing Lines

—— 1994 Capacity Expansion

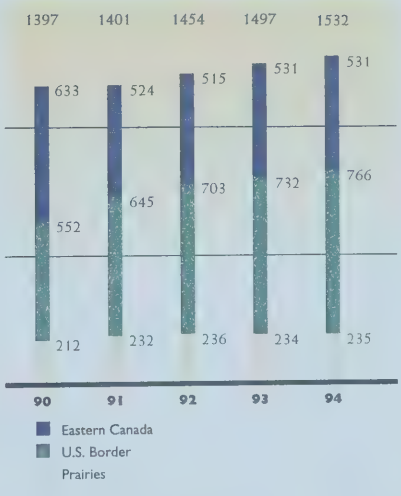
schedule and under budget. The total cost of the Capacity Expansion Program, originally budgeted at $256 million for the IPL System in Canada, is expected to be almost 10% under budget when all capacity additions are fully operational. Savings are also expected on the budgeted U.S.$130 million of expenditures on the Lakehead System.

Despite increased capacity, the volumes of liquids nominated by shippers continue to exceed the expanded space on the pipeline, indicating the possible need for a further modest expansion. However, until deficiencies in the present nomination procedures that permit shippers to over nominate volumes are corrected, a reasoned assessment of the need for additional capacity cannot be made. On February 17, 1995, following extensive consultation with shippers, Interprovincial filed with the National Energy Board an application to implement corrective measures. These measures include the introduction of a nomination fee, the requirement for shipper officer signature on original tenders, the implementation of a non performance charge and allowing for shipper non performance under certain circumstances. Interprovincial has requested expedited treatment of its application.

Canadian Pipeline Operations
Deliveries By Type
(thousands of barrels per day)



Canadian Pipeline Operations
Deliveries By Destination
(thousands of barrels per day)



SYSTEM UTILIZATION

For the third consecutive year the level of deliveries on the IPL System in 1994 reached record levels and exceeded 1.5 million barrels per day for the first time. The 2% increase in deliveries over 1993 was primarily attributable to the increased availability of medium and heavy crude oil and natural gas liquids produced in western Canada.

When measured in barrel miles, system utilization totalled 350 billion compared with 346 billion in 1993, a 1% increase, continuing the trend of higher deliveries to more western destinations.

INCENTIVE TOLLING

Building on the success of the negotiated settlement for 1994 tolls, Interprovincial reached an agreement with the Canadian Association of Petroleum Producers in January 1995 on an incentive based tolling methodology. The agreement with CAPP, which represents Canada's major oil producers, was submitted to the NEB on February 16, 1995 for approval. The proposed structure is intended to remain in place indefinitely, with the initial agreement effective for the first five year period, 1995 through 1999.

The primary objective of the incentive toll model is to align more closely Interprovincial's interests with those of its shippers. The 1995 negotiated settlement contains incentives to encourage and maximize capacity utilization and increase operating efficiency. The benefits of achieving specific targets will be shared with shippers through future toll reductions, and provide Interprovincial with the potential to achieve higher earnings than allowed under cost based regulation.

The incentive toll model also incorporates several mechanisms that will protect the earnings of the IPL System. In addition to safeguards from volume fluctuations beyond Interprovincial's control, the toll structure also contains adjustment provisions to incorporate cost increases resulting from occurrences such as new safety and environmental legislation, significant expenses associated with maintaining the integrity of the pipeline, and new or expanded services requested by industry.

OVERVIEW

When measured on a basis comparable with previous years' operations, IPL Energy's 1994 earnings increased to $88.5 million ($2.21 per share) from $80.8 million ($2.03 per share) and $75.5 million ($1.90 per share) recorded in 1993 and 1992, respectively. The positive trend in earnings over the three year period has resulted from increasing rate base, the Capacity Expansion Program completed in 1994, and increases in system utilization.

With the impact of the June 30 acquisition of The Consumers' Gas Company Ltd. included, earnings in 1994 amounted to $43.6 million, or $1.09 per share. As anticipated, the combination of a loss quarter from gas distribution operations, due to seasonality, and six months of acquisition financing costs had an adverse impact on the 1994 consolidated results.

Cash provided from operating activities in 1994 totalled $199.7 million, versus $133.9 million in 1993 and $115.2 million in 1992. The significant increase experienced in 1994 reflected funds generated by Consumers Gas subsequent to the acquisition as well as a cash inflow from the working capital of pipeline operations.

CONSOLIDATED EARNINGS

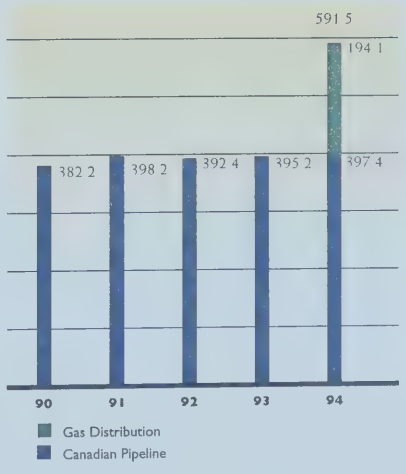
The consolidated earnings of IPL Energy reflect the results of pipeline operations in Canada, the Corporation's 18% interest in the U.S. pipeline operations, and various investing and financing activities. In addition, the 1994 earnings include the 85% interest in Consumers Gas and the related acquisition financing costs. In order to provide a consistent basis for analysis and to facilitate comparison with the results of the previous two years, the 1994 consolidated results presented in this section of the discussion have been restated to include only the results generated by traditional pipeline and investing activities.

Operating Income

(dollars in millions)	1994 (Restated)	1993	1992
Operating Revenue	**397.4**	395.2	392.4
Power Costs	**(79.8)**	(80.8)	(75.9)
Operating and Administrative Expenses	**(121.4)**	(108.3)	(117.4)
Depreciation	**(71.8)**	(69.7)	(65.5)
Operating Income	**124.4**	136.4	133.6

Operating revenue has displayed marginal increases over the three year period, reflecting an average 2% annual increase in system utilization. As part of negotiations finalized with IPL System shippers early in 1994, the Corporation extended to its customers a 2.68% reduction in tolls, reflecting a 1% decrease in the approved rate of return and the impact of the Capacity Expansion Program on this system's revenue requirement. The expansion program resulted in a lower regulated revenue requirement through the impact

Operating Revenue
(dollars in millions)



of costs capitalized during construction and the availability of higher deductions for tax purposes. The record level of deliveries achieved in 1994, combined with an increase in the proportion of more lucrative shipments of medium and heavy crude oil, contributed to offset the impact of lower average tolls. As the Corporation did not file for a toll adjustment in 1993, the 1992 tolls remained in effect for both of these years.

Annual **power costs** have been affected by increasing system utilization and higher power rates. Despite these escalating factors, 1994 power costs were slightly lower than in 1993 due to more efficient system utilization including increased capacity on incrementally less expensive lines.

In 1994, **operating and administrative expenses** were higher than the previous year due to several factors including an augmented repair and maintenance program, higher oil loss costs, and expenses related to corporate developments. As was the case in 1993, property taxes continued to increase as a result of higher mill rates and an increasing asset base. These increases were mitigated by the capitalization of overhead costs attributable to the Capacity Expansion Program. When compared with 1992, the introduction of efficiency and cost control measures was the primary cause for the decline in the 1993 expense level, and reflected lower salaries and benefits, repairs and maintenance, and outside service costs than in the previous year.

Increases in **depreciation expense** since 1992 have corresponded with the growth in property, plant and equipment associated with pipeline operations. Due to project completion late in the year, capital additions related to the Capacity Expansion Program did not impact the 1994 depreciation charge.

Earnings

(dollars in millions)	1994 (Restated)	1993	1992
Operating Income	**124.4**	136.4	133.6
Equity Earnings in U.S. Pipeline Business	**19.9**	16.4	14.1
Investment and Other Income	**52.0**	32.2	29.8
Interest Expense	**(70.6)**	(64.9)	(70.2)
Income Taxes	**(37.2)**	(39.3)	(31.8)
Earnings Before Acquisition of Consumers Gas	**88.5**	80.8	75.5

Equity earnings in U.S. pipeline business have increased each year due to improved operating results and a strengthening U.S. dollar. The 1994 contribution was marginally affected by the reduction of IPL Energy's interest in Lakehead Pipe Line Partners, L.P. from 20% to 18% as a result of a public issuance of additional preference units by the Partnership on September 27, 1994.

Investment and other income was higher than in 1993 due to a $12.4 million gain on dilution of the equity interest in the Partnership and a higher allowance for equity funds used during construction (AEDC) attributable to the Capacity Expansion Program. The 1993 investment income level was adversely affected by the use of corporate funds for internal financing purposes, and certain provisions for business development activities. These items were partially offset by a $7.5 million foreign currency translation gain. In all three years, investment and other income includes $13.8 million

of interest expense on the Series J Debentures recovered from Home Oil.

The use of internal corporate funds in 1993 reduced the level of **interest expense** in that year when compared with 1994 and 1992. These internal funds were eventually replaced with $200 million 8.20% Series K Debentures issued in December 1993.

Income taxes in 1994 reflected an effective tax rate of 29.6% compared with 32.7% and 29.6% in 1993 and 1992, respectively. Without the higher income tax deductions which arose due to the Capacity Expansion Program, the 1994 effective tax rate would have approximated the 1993 rate. As well, the 1993 effective rate reflected a 1% increase in the U.S. federal income tax rate to 35%.

SEGMENTED EARNINGS

IPL Energy's segmented results, as presented below, reflect earnings from its traditional pipeline operations and investing activities.

Segmented Earnings

(dollars in millions)	1994	1993	1992
IPL System	**47.5**	42.4	40.4
IPL(NW) System	**14.0**	14.2	14.1
Lakehead System	**12.6**	9.4	8.7
Corporate	**14.4**	14.8	12.3
Earnings Before Acquisition of Consumers Gas	**88.5**	80.8	75.5

Earnings from the **IPL System** in 1994 reflect the positive impact of the Capacity Expansion Program. As part of the 1994 toll negotiations, the IPL System was allowed an 11.5% rate of return on a deemed equity component of 45%. The Capacity Expansion Program, which was put into service in late November, contributed to an increase in average rate base to $714 million, as well as to AEDC of $6.4 million. Favourable operational factors, including higher system utilization, also contributed to improved earnings.

In 1993 and 1992, this system's allowed rate of return was 12.5% on its deemed equity component of 45%. Earnings of $42.4 million in 1993 reflected a rate base of $662 million, combined with AEDC of $1.6 million and the positive impact of several other factors, including lower financing costs and operating cost control measures. In 1992, this system achieved earnings of $40.4 million on a rate base of $588 million, and reflected higher than anticipated system utilization and AEDC of $2.6 million. Excluding AEDC, the actual rates of return achieved over the three years were 12.5% in 1994, 12.3% in 1993 and 14.4% in 1992.

The **IPL(NW) System** is regulated on a full cost of service basis and earns a 16% annual return on an approximate $87 million equity investment. Accordingly, this system's operating results are not subject to significant year to year fluctuations.

Despite the 2% reduction in the share of equity earnings for a quarter of the year, earnings from the **Lakehead System** increased to $12.6 million in 1994. Over the three year period, earnings from this system have reflected improvements in the

Partnership's results, primarily attributable to annual increases in system utilization, and a strengthening U.S. dollar. Subsequent to 1992, a 1% increase in U.S. federal income tax rates has had a negative effect on after tax earnings of this system.

Over the three year period, **Corporate** segment earnings have remained at a comparable level, reflecting investment of corporate cash resources in marketable securities, or internal financing of pipeline operations and acquisition activities. The 1994 gain on the dilution of the equity interest in the Lakehead System ($7.6 million after tax) was offset by a similar amount in 1993 related to a foreign exchange translation gain. In comparison with 1992, both subsequent years reflected provisions for certain business development activities which partially offset the dilution and translation gains recorded in those years.

ACQUISITION OF CONSUMERS GAS

On June 30, 1994, IPL Energy became a significant participant in the growing market for natural gas with the completion of its $1.2 billion acquisition of an 85% interest in Consumers Gas. Consumers Gas is a natural gas distribution utility serving over 1.2 million customers in central and eastern Ontario, as well as customers in northern New York State through a wholly owned subsidiary. As part of the transaction, IPL Energy also acquired the assets of a small natural gas utility located in southwestern Québec.

The Ontario utility business of Consumers Gas is regulated by the Ontario Energy Board which has jurisdiction over several aspects of the natural gas industry in Ontario including the storage, transmission, distribution, sale and supply of natural gas. The rates charged by Consumers Gas, its accounting methods and practices and the allowed rate of return on debt and equity capital are also subject to OEB approval. Consumers Gas is also engaged in the rental and sale of appliance merchandise.

In recent years, the market for natural gas in Ontario has expanded significantly. The combination of future growth potential, the stability of its regulated operations, and its expertise in gas distribution made Consumers Gas an attractive acquisition in IPL Energy's goal to establish a solid earnings base from which to pursue future domestic and international projects.

The purchase of Consumers Gas was financed with approximately $200 million of existing cash resources, the proceeds from the first instalment of the March 24, 1994 issuance of $500 million 3.75% Convertible Unsecured Subordinated Debentures, and variable rate borrowings approaching $850 million. A portion of this variable rate financing was replaced upon receipt of the second instalment and conversion of the Convertible Debentures in early 1995.

In order to provide the most meaningful and cost effective financial information from both an external reporting and corporate governance standpoint, IPL Energy is consolidating the September 30 fiscal year end results of Consumers Gas with its December 31 calendar year end, resulting in the reporting of gas distribution activities on a quarter lag basis. By consolidating on this basis, the reported results for Consumers Gas will coincide with its regulatory, tax and operating cycles.

As a result of the timing of the acquisition of Consumers Gas and the implementation of the quarter lag basis of consolidation, IPL Energy's 1994 earnings included only the September 30 quarter results of gas distribution operations. The inclusion of the least profitable quarter of

Consumers Gas (due to the seasonal demand for natural gas), combined with six months of acquisition financing costs, caused the 1994 consolidated results to decline from traditional levels, as expected.

Segmented Earnings – Including Acquisition of Consumers Gas

(dollars in millions)	1994
Earnings Before Acquisition of Consumers Gas	88.5
Gas Distribution	(17.7)
After Tax Acquisition Financing Costs	(27.2)
Earnings	43.6

The results of **gas distribution** activities in 1994 reflect an allocation to the 15% minority interest shareholders of Consumers Gas and amortization of the excess of the purchase price over the net book value of assets acquired.

After tax acquisition financing costs include the interest expense incurred on the financing obtained for the purchase of the gas distribution business, including the Convertible Debentures, the variable rate borrowings under credit facilities arranged specifically for the acquisition, and an allocation of interest on internal corporate funds utilized.

In 1995 and beyond, the stability of Consumers Gas' regulated operations and full year contributions therefrom are expected to have a positive and growing impact on consolidated results. To illustrate its earnings capability, the following table summarizes the publicly reported financial, regulatory and operating highlights of Consumers Gas for its three most recently completed fiscal years:

The Consumers' Gas Company Ltd.

(dollars in millions) Year ended September 30,	1994	1993	1992
Financial			
Total Revenue	1,948.9	1,748.6	1,801.3
Income Applicable to Common Shareholders – By Quarter			
December 31	25.9	28.5	25.7
March 31	107.0	93.8	69.0
June 30	5.4	10.3	13.0
September 30	(17.6)	(16.3)	(8.2)
	120.7	116.3	99.5
Regulatory – OEB Rate Decisions			
Rate Base	2,244.9	2,069.5	1,842.4
Deemed Common Equity Component of Total Capital Structure	35.0%	35.0%	35.0%
Rate of Return on Common Equity	11.6%	12.3%	13.125%
Operating			
Total Distribution Volumes (billion cubic feet)	417.2	387.2	371.1
Number of Active Customers (thousands)	1,202	1,160	1,117
Degree Day Deficiency[1]			
Actual	4,275	4,042	3,939
Forecast Based on Normal Weather	3,910	3,874	3,958

1 Degree day deficiency is a measure of coldness. It is calculated by accumulating for each day in the fiscal period the total number of degrees by which the daily mean temperature fell below 18 degrees celsius. The figures given are those accumulated in the Toronto area.

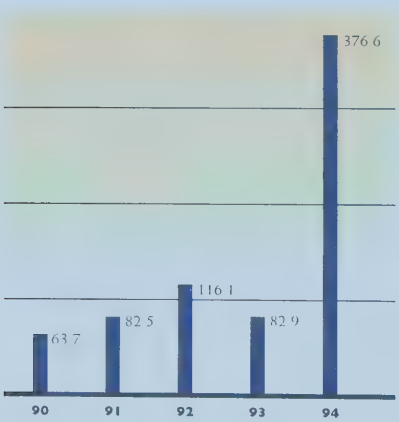
The earnings of Consumers Gas have increased over the last three years largely due to the higher distribution volumes in each successive year. The volume increase was attributable to several factors including the effects of colder weather and the continued growth in customer base.

For an illustration of the combined full year earnings capability of IPL Energy with Consumers Gas, reference should be made to note 2 to the consolidated financial statements where the 1994 proforma earnings have been provided. On a fully diluted basis, these proforma earnings amounted to $154.5 million ($2.79 per share). The calculations assume the full conversion of the Convertible Debentures and include the impact of acquisition financing and the amortization of the excess of the purchase price over the net book values of assets acquired.

LIQUIDITY AND CAPITAL RESOURCES

IPL Energy's financial position in 1994 was significantly affected by the acquisition of Consumers Gas and the completion of the crude oil pipeline's Capacity Expansion Program. In addition to raising long term financing of $1.3 billion through credit facilities and the issuance of Convertible Debentures, IPL Energy utilized $200 million of internal cash resources. At December 31, 1994, the Corporation's cash and short term investment balance was approximately $50 million.

Capital Expenditures in Canada
(dollars in millions)



Operating Activities

In 1994, cash provided from operating activities escalated from historical levels and amounted to $199.7 million for the year. The significant increase over the previous two years reflected a cash inflow from the Corporation's working capital, and amounts generated by Consumers Gas during the quarter consolidated in 1994.

Investing Activities

In addition to the acquisition of Consumers Gas, investing activities in 1994 also reflected other major corporate developments. Traditionally, capital additions to the pipeline system have been the most significant investing activity. In 1994, these expenditures reflected the impact of the $220 million Capacity Expansion Program in Canada and almost $100 million of expenditures in gas distribution operations in the fourth quarter. In addition, in December 1994, IPL Energy made an initial equity contribution of U.S.$15 million in respect of its 17.5% interest in a Colombian pipeline venture.

Financing Activities

In 1994, financing raised from various sources reflected the growth opportunities undertaken during the year. Over $1.0 billion in variable rate financing was obtained, including roughly $850 million related to the Consumers Gas acquisition and $125 million to finance pipeline capital expenditures. Additional cash proceeds were also obtained from the first instalment of the Convertible Debenture issuance and $76 million of debt issued by gas distribution operations. A portion of the acquisition variable rate

financing was replaced upon receipt of the second instalment of the Convertible Debentures.

In 1993, IPL Energy issued $200 million of 8.20% Series K Debentures, the proceeds of which replaced variable rate financing and debentures retired during the year. A year earlier, $170.2 million of the proceeds obtained under a commercial paper program were partially utilized to retire higher cost long term debt.

IPL Energy issued in excess of 650,000 common shares in 1994, including almost 400,000 ($10.7 million) under the Dividend Reinvestment and Share Purchase Plan approved at the May 5, 1994 Annual Meeting of Shareholders, and an additional 240,000 shares upon conversions of the Convertible Debentures. In each of the past three years, IPL Energy has paid a regular quarterly dividend of $0.50 per share and, in 1992, paid an additional special $7.00 per share dividend from proceeds received on the transfer of the U.S. pipeline business to the Partnership.

Credit Facilities

At December 31, 1994, the Corporation had, on a consolidated basis, $1.7 billion of credit facilities. Included in these facilities were a fully used $620 million non revolving Bridge Facility arranged for the acquisition of Consumers Gas, and $575 million of revolving term loan facilities which support the commercial paper program of regulated pipeline operations and general corporate requirements. At year end, approximately $370 million of the revolving facilities were used. Commercial paper borrowings under the regulated capital structure of the IPL System amounted to approximately $125 million.

The credit facilities also include in excess of $510 million of bank lines of credit which support gas distribution operations exclusively. These facilities are available for general corporate purposes of Consumers Gas and provide a liquidity back up to commercial paper used to meet short term borrowing requirements. At year end, approximately $500 million of these lines were unused. Commercial paper borrowings supporting gas distribution operations totalled $420 million of which $334 million was classified as short term. The remaining commercial paper borrowings have been classified as long term due to their effective conversion into long term debt through the use of interest rate swaps.

Cash generated from operating activities combined with available credit facilities provide the Corporation with a solid financing base. These resources are more than adequate to fund ongoing capital expenditure requirements, scheduled debt repayments and future dividend distributions. Planned 1995 capital expenditures in Canada are estimated to be in excess of $300 million and $70 million for the gas distribution and pipeline segments, respectively.

Financial Ratios

The one time impact of the acquisition of Consumers Gas had a significant effect on the 1994 financial ratios of IPL Energy, as demonstrated below. For comparative purposes, the 1994 proforma ratios, calculated assuming the full conversion of the Convertible Debentures at the beginning of the year and a full year contribution from gas distribution operations, have been provided.

Financial Ratios

	Proforma 1994	1994	1993	1992
Return on Average Shareholders' Equity	**16.0%**	**9.6%**	17.5%	16.4%
Earnings Coverage of Interest	**2.2x**	**1.3x**	3.3x	2.9x
Dividend Payout Ratio	**71.7%**	**183.5%**	98.5%	105.3%
Debt/Debt Plus Shareholders' Equity	**72.6%**	**88.4%**	57.1%	58.2%

In 1995, given full conversion of the Convertible Debentures by March 1 and a full year's contribution from gas distribution operations, IPL Energy's ratios are expected to rebound from the levels experienced in 1994.

FUTURE PROSPECTS

In 1995 and beyond, the one time impact that the acquisition of Consumers Gas had on 1994 earnings will be eliminated, resulting in a positive and growing contribution from gas distribution operations to consolidated earnings. In addition, the potential to achieve higher earnings from pipeline operations has improved due both to the impact of the Capacity Expansion Program and new tolling methodologies in Canada and the United States. These elements, combined with further advances in the international arena, provide IPL Energy with an optimistic outlook for the coming years.

Pipeline

In February 1995, the Corporation presented the NEB with an incentive toll agreement for the **IPL System** as negotiated with the Canadian Association of Petroleum Producers. The agreement represents a departure from the traditional cost based regulatory model whereby approved earnings are determined on the level of capital investment. Under the negotiated incentive toll structure, which is expected to be approved for the 1995 fiscal year, the ability to achieve higher earnings is based on maximizing system utilization and increasing operating efficiency, with provisions to share a portion of the benefits with pipeline customers.

Based on the starting point established under the agreement, 1995 IPL System earnings are expected to increase marginally over their 1994 level as the full year benefit of additional capacity provided by the Capacity Expansion Program is anticipated to more than offset the absence of AEDC recorded during construction of the project in 1994. Although the negotiated toll structure provides protection for decreases in throughput beyond the Corporation's control, pipeline results will be impacted by volumes shipped and by operating cost levels, including the effect of interest rate fluctuations. In order to limit the exposure to rising interest rates, the Corporation replaced $50 million of IPL System variable rate financing with medium term note debentures in March 1995. As well, under the agreement, income taxes will be recovered on an actual basis thereby eliminating the IPL System's exposure to federal and provincial changes in tax rates and the reversal of deferred income taxes.

Earnings of the IPL System beyond 1995 will also be sensitive to increases in its operating costs above the general rate of inflation as the agreement limits annual increases in the revenue requirement to the change in the Consumer Price Index, to a maximum of 5%. However, the incentive toll agreement incorporates adjustment provisions designed to recover increases in costs associated with specific events including, among other things, industry requested programs and changes in safety and environmental legislation. The settlement does not impact the full cost of service regulation of the **IPL(NW) System.**

Future earnings of the **Lakehead System** will also be sensitive to operating factors. Commencing in 1995, this system will be subject to a new ratemaking methodology imposed by the U.S. Federal Energy Regulatory Commission which also limits future rate increases to an inflation based index. As a result, Lakehead System's future earnings will be sensitive to throughput, and to operating cost increases in excess of the indexed percentage. Assuming no significant change in the Canadian/U.S. dollar exchange rate, the Corporation's 18% share of earnings from the Lakehead System is expected to increase marginally from 1994, reflecting additional delivery capability provided by the Capacity Expansion Program. Cash generated by the Partnership's operating activities is expected to be more than sufficient to maintain their Minimum Quarterly Distribution without requiring support from the Corporation.

Gas Distribution

The business risks inherent in the natural gas distribution industry impact Consumers Gas' ability to realize the revenue level required to generate the allowed rate of return on common equity. Among those business risks are timely and adequate rate relief, accuracy in forecasting distribution volumes and operating costs and, most importantly, achieving the forecasted natural gas distribution volumes.

Timely and adequate rate relief (for example, interim rate increases) is important, especially during periods of changing prices, to allow Consumers Gas to recover the costs of providing and maintaining the quality of its service while achieving its allowed rate of return on rate base.

Forecasting accuracy is another key factor, since the forward test year method of ratemaking used by regulated Ontario utilities anticipates the volumes distributed by class of customers, the operating costs and cost of capital to be expected in the future. Consequently, accuracy in the forecasting process should ensure that any changes in cost of service, regardless of whether it is caused by inflation or changes in level of business activity, would be recovered in new rates approved for that fiscal year based on the anticipated distribution volumes.

Since customers are billed on a volume basis, Consumers Gas' ability to recover its total revenue requirement (i.e., the cost of providing service) depends on achieving the forecast distribution volumes established in the ratemaking process. The probability of realizing the forecast distribution volumes is contingent upon three key forecast variables: weather, economic conditions and pricing, and the number of customers.

To manage its exposure to future fluctuations in interest rates on its working capital and longer term debt financing requirements, Consumers Gas has utilized interest rate swaps and forward rate agreements for hedging purposes. As well, Consumers Gas has undertaken a natural gas price risk management program, on behalf of its customers, to manage the price volatility of its forecasted system gas supply by entering into system supply gas contracts with market responsive pricing structures.

For 1995, the OEB has approved a rate of return of 11.65% on a 35% deemed common equity component and a rate base of $2,430 million. Consumers Gas anticipates that its utility capital additions will approximate $1.5 billion over the next five years.

It is expected that a large portion of future increases in IPL Energy's earnings will be generated from natural gas distribution operations as it has growth potential in both traditional gas distribution markets and emerging natural gas markets.

Corporate and Other Activities

Earnings from the **Corporate** segment are primarily sensitive to fluctuations in interest rates attached to its investments and intersegment lendings. In 1995, this segment's earnings are expected to be lower due to the absence of the dilution gain recorded in 1994. Effective with the transfer of the investing and financing activities to an integrated U.S. subsidiary in 1993, the Corporation has regularly entered into foreign exchange contracts which match the effect of translating Canadian dollar denominated monetary items held by the subsidiary.

As at December 31, 1994, the Corporation had approximately $1 billion in non regulated variable rate borrowings of which $850 million related to the acquisition of Consumers Gas. Subsequent to the receipt of the second instalment relating to Convertible Debentures, IPL Energy applied the proceeds to acquisition related debt, reducing such borrowings to approximately $500 million. In order to further limit the exposure to volatile interest rates, in February 1995 the Corporation entered into interest rate swaps to fix $150 million of the remaining acquisition financing. Subsequently, IPL Energy issued $50 million 9.67% Series A Debentures and an additional $75 million of debentures through a private placement. The proceeds from these debentures were used to further retire variable rate borrowings related to the acquisition.

Although the Corporation's strategy includes maintaining a portion of its non regulated financing in variable rate instruments, IPL Energy will continue to monitor market conditions to eliminate the interest rate exposure on approximately one half of the remaining external floating rate financing.

Contributions from **international** investments are also expected to materialize in the future. Earnings from the Colombian oil pipeline project, in which IPL Energy has secured a 17.5% equity interest, will be sensitive to the timing of construction. With construction scheduled between 1995 and 1997, only marginal contributions to earnings will be realized, increasing as the equity investment rises during the construction period. Upon completion, anticipated in 1997, IPL Energy will share in the full earnings potential of the project.

MANAGEMENT'S REPORT

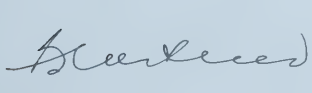
To the Shareholders of IPL Energy Inc.

Management is responsible for the accompanying consolidated financial statements and all other information in this Annual Report. The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and necessarily include certain amounts that reflect management's judgement and best estimates. Financial information contained elsewhere in this Annual Report is consistent with the consolidated financial statements.

Management has established systems of internal control that provide reasonable assurance that assets are safeguarded from loss or unauthorized use and produce reliable accounting records for the preparation of financial information. The internal control system includes an internal audit function and an established code of business conduct.

The Board of Directors is responsible for ensuring that management fulfils its responsibilities for financial reporting and internal controls related thereto. The Audit Committee of the Board, composed of directors who are not officers or employees of the Corporation, has a specific responsibility in this area. The Committee meets with management, internal auditors and independent auditors to review the internal controls as they relate to financial reporting and the consolidated financial statements. The Audit Committee reports its findings to the Board for its consideration in approving the consolidated financial statements for issuance to the shareholders.

Price Waterhouse, appointed by the shareholders as the Corporation's independent auditors, conducts an examination of the consolidated financial statements in accordance with generally accepted auditing standards.



B. F. MacNeill
PRESIDENT & CHIEF EXECUTIVE OFFICER

D. P. Truswell
SENIOR VICE PRESIDENT & CHIEF FINANCIAL OFFICER

AUDITORS' REPORT

To the Shareholders of IPL Energy Inc.

We have audited the consolidated statement of financial position of IPL Energy Inc. as at December 31, 1994 and 1993 and the consolidated statements of earnings, retained earnings and cash flows for each of the years in the three year period ended December 31, 1994. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 1994 and 1993 and the results of its operations and the changes in its financial position for each of the years in the three year period ended December 31, 1994 in accordance with Canadian generally accepted accounting principles.

Price Waterhouse

Edmonton, Alberta, Canada
FEBRUARY 6, 1995

Chartered Accountants

CONSOLIDATED STATEMENT OF EARNINGS

Year ended December 31, (dollars in millions, except per share amounts)	1994	1993	1992
Operating Revenue			
Transportation revenue	**398.1**	395.2	392.4
Gas sales	**172.2**	–	–
Other	**21.2**	–	–
	591.5	395.2	392.4
Expenses			
Power	**79.8**	80.8	75.9
Gas costs	**105.3**	–	–
Operating and administrative	**187.6**	108.3	117.4
Depreciation	**102.0**	69.7	65.5
	474.7	258.8	258.8
Operating Income	**116.8**	136.4	133.6
Equity Earnings in U.S. Pipeline Business (Note 3)	**19.9**	16.4	14.1
Investment and Other Income (Note 5)	**52.2**	32.2	29.8
Interest Expense (Note 6)	**(149.9)**	(64.9)	(70.2)
Earnings Before Undernoted	**39.0**	120.1	107.3
Income Taxes (Note 7)	**3.6**	(39.3)	(31.8)
	42.6	80.8	75.5
Minority Interest	**1.0**	–	–
Earnings	**43.6**	80.8	75.5
Earnings Per Share (Note 14)	**1.09**	2.03	1.90

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

Year ended December 31, (dollars in millions, except per share amounts)	1994	1993	1992
Retained Earnings at Beginning of Year	**234.6**	233.6	237.7
Earnings	**43.6**	80.8	75.5
Dividends	**(80.2)**	(79.8)	(79.6)
Retained Earnings at End of Year	**198.0**	234.6	233.6
Dividends Per Share	**2.00**	2.00	2.00

The accompanying notes to the consolidated financial statements are an integral part of these statements.

Year ended December 31, (dollars in millions)	1994	1993	1992
Cash Provided from Operating Activities (Note 8)	**199.7**	133.9	115.2
Investing Activities			
Acquisition of Consumers Gas (Note 2)	**(1,203.8)**	–	–
Additions to property, plant and equipment	**(376.6)**	(82.9)	(116.1)
Short term investments	**13.2**	54.0	(103.6)
Long term investments	**(33.7)**	(21.0)	–
Other	**(3.3)**	(13.1)	(2.7)
	(1,604.2)	(63.0)	(222.4)
Financing Activities			
Issuance of Convertible Debentures, net (Note 10)	**171.8**	–	–
Issuance of fixed rate financing, net	**76.0**	197.7	–
Retirement of fixed rate financing	**(29.5)**	(67.7)	(102.1)
Variable rate financing, net	**1,044.3**	(158.8)	170.2
Issuance of capital stock	**11.0**	2.7	2.8
Dividends paid	**(80.2)**	(79.8)	(79.6)
Special dividend paid (Note 3)	**–**	–	(278.4)
Minority interest	**(2.3)**	–	–
	1,191.1	(105.9)	(287.1)
Effect of Exchange Rate Changes on Foreign Currency Cash Balances	**0.5**	5.6	23.4
Decrease in Cash	**(212.9)**	(29.4)	(370.9)
Cash at Beginning of Year	**225.3**	254.7	625.6
Cash at End of Year	**12.4**	225.3	254.7

The accompanying notes to the consolidated financial statements are an integral part of these statements.

December 31, (dollars in millions)	1994	1993
ASSETS		
Current Assets		
Cash	**12.4**	225.3
Short term investments	**36.4**	49.6
Accounts receivable and other current assets	**269.3**	69.6
Gas in storage	**351.6**	–
Instalment receipts receivable (Note 10)	**307.6**	–
	977.3	344.5
Receivable from Home Oil (Note 11)	**125.0**	125.0
Investment in U.S. Master Limited Partnership (Note 3)	**37.4**	17.4
Deferred Charges and Other Assets	**154.5**	52.7
Property, Plant and Equipment, Net (Note 9)	**4,051.9**	1,127.0
	5,346.1	1,666.6
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Short term borrowings (Note 12)	**350.7**	4.0
Accounts payable and accrued liabilities	**309.6**	44.7
Interest payable	**54.3**	8.0
Current portion of long term liabilities	**82.0**	22.1
	796.6	78.8
Series J Debentures (assumed by Home Oil) (Note 11)	**125.0**	125.0
Convertible Debentures (Note 10)	**492.1**	–
Long Term Debt (Note 12)	**2,841.3**	597.1
Deferred Credits	**12.4**	2.6
Deferred Income Taxes	**398.8**	399.9
Minority Interest (Note 13)	**233.5**	–
Commitments and Contingencies (Note 19)		
	4,899.7	1,203.4
Shareholders' Equity		
Capital stock (Note 14)		
Issued – 40,583,364 common shares (1993 – 39,931,758)	**243.8**	225.2
Retained earnings	**198.0**	234.6
Foreign currency translation adjustment	**4.6**	3.4
	446.4	463.2
	5,346.1	1,666.6

The accompanying notes to the consolidated financial statements are an integral part of these statements.

Approved by the Board:

DIRECTOR

DIRECTOR

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Corporation's primary business activities are the transportation of crude oil and other liquid hydrocarbons by pipeline and the distribution of natural gas. Crude oil pipeline systems in Canada (IPL System and IPL(NW) System) are owned and operated by wholly owned subsidiaries Interprovincial Pipe Line Inc. and Interprovincial Pipe Line (NW) Ltd., respectively. Another wholly owned subsidiary, Lakehead Pipe Line Company, Inc., holds an 18% equity interest in and operates a crude oil pipeline system in the United States (Lakehead System). The natural gas distribution business is conducted through an 85% owned subsidiary, The Consumers' Gas Company Ltd. (Consumers Gas).

The consolidated financial statements of the Corporation are prepared in accordance with Canadian generally accepted accounting principles and conform in all material respects with the historical cost accounting standards of the International Accounting Standards Committee.

Principles of Consolidation

The consolidated financial statements include the accounts of the Corporation and all of its subsidiaries. Investments in entities which are not subsidiaries, but over which the Corporation exercises significant influence, are accounted for using the equity method.

The Corporation consolidates the September 30 fiscal year results of Consumers Gas on a quarter lag basis. This method of consolidation reflects the results of gas distribution activities in accordance with its regulatory, tax and operating cycles. Accordingly, references to "December 31", reflect the financial position of Consumers Gas as at September 30, and references to the "year ended December 31" include the results of Consumers Gas from June 30, 1994, the date of acquisition, to September 30, 1994.

Regulation

The Corporation's primary business activities are subject to regulation by various authorities including the National Energy Board (NEB) for the IPL System and the IPL(NW) System, the Federal Energy Regulatory Commission (FERC) for the Lakehead System, and the Ontario Energy Board (OEB) for the gas distribution segment. These regulatory authorities exercise statutory authority over various matters such as construction, rates and accounting practices.

Foreign Currency Translation

The Corporation's equity interest in its self sustaining U.S. pipeline operations is translated into Canadian dollars using the current rate method. The equity investment is translated at the rate of exchange in effect at the date of the consolidated statement of financial position. Equity income and cash distributions are translated at exchange rates prevailing during the year. Gains and losses resulting from these translation adjustments are deferred as a separate component of shareholders' equity until there is a realized reduction of the investment.

Effective January 1, 1993, the investing and financing operations for the Corporation and all of its pipeline subsidiaries were transferred to the United States. Such operations, which consist of non pipeline activities, are integrated with those of the Corporation. As a result, these accounts are translated into Canadian dollars using the temporal method. Monetary assets and liabilities are translated at rates of exchange in effect at the date of the consolidated statement of financial position. Non monetary assets and liabilities are translated at historical rates of exchange. Income and expense items are translated at exchange rates prevailing during the year, except for items relating to non monetary assets and liabilities which are translated at the applicable historical rates of exchange. Gains and losses resulting from these translation adjustments are included in earnings.

Revenue Recognition

Revenue derived from the transportation of crude oil and other liquid hydrocarbons is recognized upon delivery. Revenue from the distribution of natural gas is recorded monthly when billed, on the basis of meter readings or estimates made throughout the month, and is not adjusted for consumption to month end.

Cash and Short Term Investments

Cash includes short term deposits, which are all highly marketable securities with a maturity of three months or less when purchased. Short term investments are marketable securities with a maturity of more than three months when purchased. Short term deposits and investments are held to maturity and valued at cost.

Gas in Storage

Inventory of gas held in storage is stated at the lower of cost, determined on the first in first out basis, and net realizable value.

Deferred Financing Charges

Deferred financing charges are amortized on the straight line basis over the life of the related debt.

Property, Plant and Equipment

Expenditures for system expansion and major renewals and betterments are capitalized; maintenance and repair costs are expensed as incurred. Regulated operations in Canada follow the practice of capitalizing, at rates authorized by the regulatory authorities, an allowance for interest during construction. Canadian crude oil pipeline operations also capitalize an allowance for equity funds used during construction, at prescribed rates.

Contributions in aid of construction of gas distribution assets are deducted from the cost of acquiring property, plant and equipment, with subsequent depreciation calculated on the net cost.

Depreciation

Depreciation of property, plant and equipment is provided on the straight line basis over their estimated service lives. However, in accordance with the terms of a Deficiency Agreement with the Government of Canada, the Sarnia to Montreal portion of the IPL System (Montreal Extension) is depreciated on a 20 year straight line basis.

When property, plant and equipment are retired or otherwise disposed of, the cost less net proceeds is charged to accumulated depreciation. For major disposals, the gain or loss arising on disposition is included in earnings.

A provision for future removal and site restoration costs for the gas distribution segment is recorded and recovered through depreciation at rates approved by the OEB. Actual costs incurred are charged to accumulated depreciation. Similar costs are not recovered through tolls for crude oil pipeline operations as regulatory approval has not been sought and the recovery method and timing have not been determined. No provision has been made for future removal and site restoration costs since it is expected that these costs will be recovered through pipeline tolls.

Income Taxes

For ratemaking purposes, the NEB and OEB have prescribed the taxes payable method of recovery for the IPL System and gas distribution segment, respectively. Under this method, no provision is made for income taxes deferred as a result of timing differences in the recognition of revenues and expenses for income tax and financial statement purposes. This method is followed for accounting purposes as there is reasonable expectation that all such taxes will be recovered through rates when they become payable. The tax allocation method of accounting is followed for all other operations.

Postretirement Benefits

For pipeline operations, pension costs and obligations are determined using the projected benefit method and are charged to earnings as services are rendered. Consistent with the ratemaking process of the gas distribution segment, only contributions made to the pension plan of the gas distribution segment are expensed as pension costs.

The Corporation also provides postretirement benefits other than pensions, including group health care and life insurance benefits for eligible retirees, their spouses and qualified dependants. For Canadian pipeline and gas distribution operations, these obligations are charged to earnings as funded. For U.S. operations, the cost of such benefits is accrued during the years the employees render service.

Off Balance Sheet Financial Instruments

The Corporation utilizes a variety of financial instruments, which are not reflected in the financial statements, to manage its exposure to the impact of foreign currency translation gains or losses and to risks associated with interest rate and natural gas price fluctuations. All of these instruments are used for purposes other than trading and are employed in connection with an underlying asset, liability or anticipated transaction.

The impact of forward foreign exchange contracts is recognized in earnings immediately and matches the effect of translating Canadian dollar denominated monetary items held by an integrated U.S. subsidiary. Gains or losses on forward rate agreements and interest rate swaps settled prior to maturity of the hedged items are deferred and recognized in earnings over the expected remaining life of the hedged items. Income or expenses associated with active interest rate swaps are recognized over the life of the agreements. Amounts received or paid under natural gas price swaps are recognized as an adjustment to the gas cost of the underlying physical natural gas purchase.

Comparative Amounts

Certain comparative amounts are reclassified to conform with the current year's financial statement presentation.

2. ACQUISITION OF CONSUMERS GAS

On June 30, 1994, the Corporation completed its acquisition of 85% of the outstanding common shares of Consumers Gas, and certain other related assets, for an aggregate purchase price of $1,203.8 million. This acquisition has been accounted for using the purchase method.

The investment in Consumers Gas exceeded the book value of the net assets acquired by $460.6 million. This excess has been allocated to property, plant and equipment acquired on the basis of estimated fair values and is being amortized over the economic life of such assets.

	June 30, 1994
Net assets acquired:	
Working capital deficiency	(36.9)
Deferred charges and other assets	54.6
Property, plant and equipment	2,646.1
Long term debt, including current portion	(1,206.4)
Deferred credits	(10.0)
Deferred income taxes	(6.8)
Minority interest	(236.8)
	1,203.8
Financed by:	
Cash resources	193.6
Convertible Debentures, net of issue costs (Note 10)	166.8
Variable rate financing, net	843.4
	1,203.8

The following consolidated proforma information has been compiled assuming full year contributions from Consumers Gas for its fiscal years ended September 30, 1994 and 1993. Based on the terms of the Convertible Debentures (Note 10), fully diluted proforma earnings per share are considered to be more representative of future earnings per share as they give effect to the total conversion of these debentures at the beginning of each year. The consolidated proforma information reflects acquisition financing costs and the amortization of the excess of the purchase price over the net book value of the assets acquired.

Year ended December 31, (unaudited)	1994	1993
Revenue	2,337.3	2,134.0
Earnings	130.9	117.9
Fully diluted earnings	154.5	140.3
Earnings per share		
Basic	3.27	2.96
Fully diluted	2.79	2.56

The consolidated proforma information has been prepared for comparative purposes only and may not be indicative of results that would have actually occurred or of the results of future operations.

3. INVESTMENT IN U.S. MASTER LIMITED PARTNERSHIP

On December 27, 1991, in a restructuring and refinancing transaction, the Corporation's wholly owned U.S. subsidiary, Lakehead Pipe Line Company, Inc. (Lakehead), transferred substantially all of its assets and liabilities related to its pipeline business to Lakehead Pipe Line Partners, L.P., a U.S. Master Limited Partnership (the Partnership). Lakehead retained an approximate 20% equity interest in the Partnership and manages and operates its former pipeline business as the General Partner. On completion of the transaction, a special dividend of $278.4 million ($7.00 per share) was declared payable January 31, 1992 to shareholders of record on January 15, 1992.

On September 27, 1994, the Partnership completed a public issuance of 2.2 million additional Preference Units, reducing Lakehead's equity interest in the Partnership to approximately 18%. The proceeds received by the Partnership were allocated among the capital accounts of the unitholders based upon the increase in Partnership net assets attributable to each interest as a result of the issuance. The Corporation's pro rata share of Partnership net assets increased by $12.4 million, which the Company recognized in earnings (Note 5).

Lakehead Services, Limited Partnership (the Services Partnership) was formed to facilitate the ongoing financing of the Partnership. Lakehead owns a 99% limited partner interest in the Services Partnership and the Partnership holds a 1% general partner interest. The Services Partnership has irrevocably placed U.S. $157.0 million (1993 – U.S. $176.0 million) of U.S. government securities in a trust to be used solely for satisfying scheduled payments of both interest and principal on borrowings of U.S. $151.0 million (1993 – U.S. $171.0 million) under a Revolving Credit and Term Loan Facility which was assumed by the Services Partnership from the Partnership. This transaction has been recognized as an in substance defeasance and the debt is considered to be extinguished.

The operating results of the Partnership were as follows:

Year ended December 31, (U.S. dollars)	**1994**	1993	1992
Operating revenue	**246.0**	240.1	222.2
Operating expenses	**(159.7)**	(159.6)	(148.7)
Interest expense	**(29.8)**	(30.9)	(29.4)
Other	**3.4**	2.4	2.9
Net income	**59.9**	52.0	47.0

Equity earnings of $19.9 million (1993 – $16.4 million; 1992 – $14.1 million) reflect the Corporation's interest in the net income of the Partnership adjusted for an allocation of depreciation on an historical cost basis for assets originally contributed on formation of the Partnership. In 1994, the Corporation received cash distributions of $15.7 million from the Partnership (1993 – $13.3 million; 1992 – $9.5 million).

The assets and liabilities of the Partnership are summarized below:

December 31, (U.S. dollars)	**1994**	1993
Current assets	**134.7**	130.2
Deferred charges and other assets	**6.3**	6.5
Property, plant and equipment, net	**727.6**	622.1
	868.6	758.8
Current liabilities	**68.7**	47.2
Long term debt	**364.0**	344.0
Partners' capital	**435.9**	367.6
	868.6	758.8

The carrying value of the Corporation's investment in the Partnership includes unremitted equity earnings of $12.1 million (1993 – $7.9 million).

4. SEGMENTED INFORMATION

The Corporation operates primarily in two business segments of the energy industry: gas distribution, and the transportation of crude oil and other liquid hydrocarbons through a common carrier pipeline system. Prior to the 1994 acquisition of Consumers Gas, the Corporation operated solely in the crude oil pipeline segment. Assets located outside of Canada are not operationally significant or are of a general corporate nature. The Corporation did not have any intersegment sales in 1994.

Business Segments

Year ended December 31, 1994	Pipeline	Gas Distribution	Corporate	Acquisition Financing	Total
Operating revenue	397.4	194.1	–	–	**591.5**
Expenses					
Power	79.8	–	–	–	**79.8**
Gas costs	–	105.3	–	–	**105.3**
Operating and administrative	121.1	66.2	0.3	–	**187.6**
Depreciation	70.8	30.2	1.0	–	**102.0**
	271.7	201.7	1.3	–	**474.7**
Operating income (loss)	125.7	(7.6)	(1.3)	–	**116.8**
Equity earnings in U.S. pipeline business	19.9	–	–	–	**19.9**
Investment and other income	13.8	3.0	38.2	(2.8)	**52.2**
Interest expense	(55.8)	(33.3)	(14.8)	(46.0)	**(149.9)**
Earnings before undernoted	103.6	(37.9)	22.1	(48.8)	**39.0**
Income taxes	(29.5)	19.2	(7.7)	21.6	**3.6**
Minority interest	–	1.0	–	–	**1.0**
Earnings (loss)	74.1	(17.7)	14.4	(27.2)	**43.6**
Earnings (loss) per share	1.85	(0.44)	0.36	(0.68)	**1.09**
Additions to property, plant and equipment	278.0	97.5	1.1	–	**376.6**
December 31, 1994					
Identifiable assets	1,568.7	3,322.0	455.4	–	**5,346.1**

5. INVESTMENT AND OTHER INCOME

Year ended December 31,	**1994**	1993	1992
Recovery of interest from Home Oil (Note 11)	**13.8**	13.8	13.8
Gain on dilution of equity interest in U.S. Master Limited Partnership (Note 3)	**12.4**	–	–
Marketable securities	**11.2**	6.8	12.6
Allowance for equity funds used during construction	**6.4**	1.6	2.6
Foreign currency translation gain	**–**	7.5	–
Other	**8.4**	2.5	0.8
	52.2	32.2	29.8

6. INTEREST EXPENSE

Year ended December 31,	1994	1993	1992
Long term debt	**124.6**	50.2	58.9
Convertible Debentures (Note 10)	**14.9**	–	–
Series J Debentures (Note 11)	**13.8**	13.8	13.8
Short term borrowings	**4.4**	2.5	0.1
Capitalized	**(7.8)**	(1.6)	(2.6)
	149.9	64.9	70.2

7. INCOME TAXES

The geographic components of pretax earnings and income taxes were as follows:

Year ended December 31,	1994	1993	1992
Earnings before income taxes and minority interest			
Canada	**(11.1)**	85.1	82.8
United States	**50.1**	35.0	24.5
	39.0	120.1	107.3
Current income taxes			
Canada	**(25.6)**	(13.9)	21.9
United States	**29.9**	26.7	25.4
	4.3	12.8	47.3
Deferred income taxes			
Canada	**2.0**	42.4	2.5
United States	**(9.9)**	(15.9)	(18.0)
	(7.9)	26.5	(15.5)
Income taxes (recovery)	**(3.6)**	39.3	31.8

Deferred income taxes have arisen as a result of the following items:

Year ended December 31,	1994	1993	1992
Capital cost allowance in excess of (less than) depreciation:			
Property, plant and equipment	**(1.9)**	(1.3)	(1.5)
Long term investment	**(2.3)**	44.2	–
U.S. Master Limited Partnership transaction	**(6.3)**	(13.1)	(15.5)
Other	**2.6**	(3.3)	1.5
	(7.9)	26.5	(15.5)

Accumulated deferred income taxes which have not been recorded in the accounts amounted to $409.4 million at December 31, 1994 (1993 – $19.6 million). Had the deferred method of tax allocation been prescribed by the regulatory authorities for ratemaking purposes, such amounts would have been recorded and recovered in rates to date.

The income tax provision differs from the amount computed by applying the combined Canadian federal and provincial income tax rates to pretax earnings. The difference results from the items shown in the following table:

Year ended December 31,	1994	1993	1992
Earnings before income taxes and minority interest	**39.0**	120.1	107.3
Canadian statutory income tax rate	**43.9%**	43.6%	43.2%
Income taxes at statutory rate	**17.1**	52.4	46.3
Increase (decrease) resulting from:			
Temporary differences for which no deferred taxes are provided in the accounts	**(20.7)**	(9.0)	(10.6)
Foreign income tax rate differentials	**(4.8)**	(2.6)	(2.6)
Large Corporations Tax in excess of surtax	**4.4**	1.9	1.5
Foreign currency translation gain	**–**	(3.2)	–
Other	**0.4**	(0.2)	(2.8)
Income taxes (recovery)	**(3.6)**	39.3	31.8
Effective income tax rate	**(9.2%)**	32.7%	29.6%

8. CASH PROVIDED FROM OPERATING ACTIVITIES

Year ended December 31,	1994	1993	1992
Earnings	**43.6**	80.8	75.5
Charges (credits) not affecting cash:			
Depreciation	**102.0**	69.7	65.5
Deferred income taxes	**(7.9)**	26.5	(15.5)
Gain on dilution of equity interest in U.S. Master Limited Partnership (Note 3)	**(12.4)**	–	–
Allowance for equity funds used during construction	**(6.4)**	(1.6)	(2.6)
Foreign currency translation gain	**–**	(7.5)	–
Other	**7.1**	0.7	(5.0)
	126.0	168.6	117.9
Changes in operating assets and liabilities:			
Accounts receivable and other current assets	**(199.7)**	(31.7)	22.9
Gas in storage	**(351.6)**	–	–
Short term borrowings	**350.7**	–	–
Accounts payable and accrued liabilities	**264.9**	1.2	(22.9)
Interest payable	**46.3**	(4.2)	(2.7)
Working capital deficiency related to the acquisition of Consumers Gas (Note 2)	**(36.9)**	–	–
	199.7	133.9	115.2

9. PROPERTY, PLANT AND EQUIPMENT, NET

December 31, 1994	Weighted Average Depreciation Rate	Cost	Accumulated Depreciation	Net
IPL System	3.9%	1,806.2	715.5	1,090.7
IPL(NW) System	4.1%	360.0	137.6	222.4
Gas Distribution	2.5%	2,743.6	30.2	2,713.4
Other	3.5%	34.6	9.2	25.4
		4,944.4	892.5	4,051.9

December 31, 1993	Weighted Average Depreciation Rate	Cost	Accumulated Depreciation	Net
IPL System	3.9%	1,532.9	667.7	865.2
IPL(NW) System	4.1%	360.6	124.3	236.3
Other	3.2%	33.7	8.2	25.5
		1,927.2	800.2	1,127.0

The average depreciation rate for the gas distribution segment, after inclusion of the provision for future removal and site restoration costs, is 3.8%.

The Corporation and the Government of Canada are parties to a Deficiency Agreement, whereby the Government will pay the deficiency if operating revenue in respect of the Montreal Extension is not sufficient to meet the fixed and variable costs. Tolls prescribed by the NEB in respect of the Montreal Extension do not produce sufficient operating revenue to meet the fixed and variable costs. Deficiency payments amounted to $5.7 million (1993 – $1.8 million; 1992 – $15.7 million) and are included in operating revenue. Under the Agreement, which expires in June 1996, the Government has an option to purchase the Montreal Extension at its capital cost, less accumulated depreciation, plus related expenses. At December 31, 1994, the capital cost and accumulated depreciation of the Montreal Extension amounted to $252.7 million (1993 – $253.2 million) and $230.5 million (1993 – $218.9 million), respectively.

10. CONVERTIBLE DEBENTURES

On March 24, 1994, the Corporation issued $500 million 3.75% Convertible Unsecured Subordinated Debentures, represented by instalment receipts, with a maturity date of March 15, 2015, in order to provide permanent financing for the acquisition of Consumers Gas. The debentures are convertible, at the option of the holders, into a total of 15.3 million common shares of the Corporation upon payment of the second instalment. The second instalment on the debentures, whether converted or not, is payable by March 1, 1995. Subsequent to this date, the debentures may be redeemed by the Corporation at a price equal to their principal amount plus unpaid interest. At December 31, 1994, $7.9 million in debentures had been converted, resulting in the issuance of 243,156 shares.

11. SERIES J DEBENTURES

On May 1, 1991, the Corporation distributed ownership of its oil and gas subsidiary, Home Oil Company Limited, to all shareholders. The principal and interest obligations on certain indebtedness of the Corporation were assumed by Home Oil effective on that date. These obligations included the 11% Series J Debentures ($125.0 million due February 28, 1995) which continue to be the legal obligation of the Corporation. However, a letter of credit has been received from a financial institution in favour of the Corporation guaranteeing Home Oil's payment obligations, which match and offset the Corporation's liability for principal and interest payments on these debentures.

12. DEBT

Long Term Debt

December 31,	Weighted Average Interest Rate	Maturity	1994	1993
Regulated Debt				
IPL System				
Debentures	9.3%	2006-2024	**396.7**	401.7
Variable rate financing [1]	6.0%		**123.2**	44.8
			519.9	446.5
IPL(NW) System				
Debentures [2]	12.7%	1999-2004	**147.5**	160.3
Variable rate financing [1]	6.3%		**4.4**	4.3
			151.9	164.6
Gas Distribution				
Debentures	10.6%	1995-2012	**855.1**	–
Medium term notes	7.4%	1996-2004	**329.0**	–
Other [3]	7.3%	1994-1996	**86.5**	–
			1,270.6	–
Total regulated debt			**1,942.4**	611.1
Non Regulated Debt				
Variable rate financing	6.6%		**973.9**	–
Total long term debt			**2,916.3**	611.1
Current portion of long term debt			**(75.0)**	(14.0)
Long term debt			**2,841.3**	597.1

1 Variable rate financing for regulated pipeline operations supported by committed long term bank lines of credit is classified as long term.
2 Secured by an assignment of the benefits of the Norman Wells Pipeline Agreement and a first mortgage on the IPL(NW) System pipeline properties.
3 Represents commercial paper borrowings on which the interest rates have effectively been fixed using long term interest rate swaps.

The amounts of long term debt maturities and sinking fund requirements for the years ending December 31, 1995 through 1999 are $75.0 million, $98.4 million, $66.7 million, $276.4 million and $71.2 million, respectively.

Credit Facilities

To support its regulated pipeline operations and general corporate investment activities, the Corporation has credit facilities totalling $1,195.0 million. These facilities consist of:

- a $620.0 million non revolving Bridge Facility which has been fully utilized and which expires on June 29, 1996. The shares of Consumers Gas are indirectly pledged as security under the Bridge Facility.
- a $500.0 million Revolving Term Loan Facility which is committed until December 31, 1999, and is secured by a pledge of Interprovincial Pipe Line Inc. and Interprovincial Pipe Line (NW) Ltd. shares. This facility is available for general corporate purposes and to support commercial paper borrowings in respect of the regulated pipeline operations which, at December 31, 1994, totalled $123.2 million and were classified as long term debt. Drawdowns under this facility amounted to $366.0 million and were also classified as long term debt.
- additional unsecured lines of credit totalling $75.0 million, of which a $60.0 million facility is committed until December 29, 1995. Drawdowns under the remaining $15.0 million facility totalled $4.4 million and have been classified as long term debt.

Commercial paper borrowings by the Corporation's regulated pipeline operations, which have been classified as long term, can be replaced with other long term debt instruments in accordance with the appropriate regulated capital structure.

With respect to the gas distribution operations, short term financing requirements are met through the issuance of commercial paper and borrowings under lines of credit. The lines of credit of Consumers Gas are used to support the gas distribution segment's commercial paper borrowings and are not available for corporate investment or pipeline operation purposes. At December 31, 1994, the gas distribution segment had $275.0 million in committed bank lines and $241.1 million in uncommitted bank lines. Commercial paper borrowings of $334.0 million and drawdowns under the facility of $16.7 million at December 31, 1994 are classified as short term borrowings.

The Corporation's committed lines of credit carry a weighted average standby fee of 0.17% per annum on the unutilized portion. Upon drawdown, loans bear interest at prevailing market rates.

At December 31, 1994, the weighted average interest rate on short term borrowings of $350.7 million was 5.7% (1993 – $4.0 million, 4.4%, respectively).

During 1994, the Corporation's total borrowings averaged $1,866.9 million (1993 – $624.1 million; 1992 – $607.2 million) and the average interest rate was 8.4% (1993 – 10.7%; 1992 – 12.0%).

On February 6, 1995, the Corporation issued $50.0 million of 9.67% Unsecured Debentures due February 23, 2000 under a previously filed shelf prospectus. The net proceeds will be used to repay a portion of the Bridge Facility.

13. MINORITY INTEREST

At December 31, 1994, the minority interest in Consumers Gas consisted of the following:

	Number	Amount
Cumulative Redeemable Preference Shares, Group 1		
$5.50 Series A, $5.50 Series B and $5.00 Series C	62,581	**6.3**
Cumulative Redeemable Retractable Preference Shares, Group 2		
$1.6125 Series C	2,000,000	**50.0**
Cumulative Redeemable Retractable Preference Shares, Group 3		
$1.43 Series C	2,000,000	**50.0**
Preference share dividends payable		**1.6**
Minority interest in common shares	10,023,647	**125.6**
		233.5

14. CAPITAL STOCK

The authorized capital stock of the Corporation consists of an unlimited number of common and preferred shares. No preferred shares have been issued.

	Common Shares	
	Number	Amount
Balance at December 31, 1991	39,699,156	219.7
Exercise of stock options	101,975	2.4
Stock dividends	15,292	0.4
Balance at December 31, 1992	39,816,423	222.5
Exercise of stock options	68,420	1.6
Stock dividends	46,915	1.1
Balance at December 31, 1993	39,931,758	225.2
Exercise of stock options	9,800	**0.2**
Stock dividends	3,337	**0.1**
Dividend Reinvestment and Share Purchase Plan	395,313	**10.7**
Conversion of Convertible Debentures, net of issue costs	243,156	**7.6**
Balance at December 31, 1994	40,583,364	**243.8**

Earnings per share are computed on the weighted average number of shares outstanding of 40,086,024, 39,888,616 and 39,801,683 in 1994, 1993 and 1992, respectively. For the year ended December 31, 1994, there would have been no dilution of earnings per share if outstanding stock options had been exercised or if the Convertible Debentures (Note 10) had been fully converted during the year.

In 1994, the Corporation introduced a Dividend Reinvestment and Share Purchase Plan. Under the Plan, registered shareholders may reinvest dividends in common shares of the Corporation at a discount to market, and purchase additional common shares at the market price through optional cash payments of up to $5,000 per quarter.

15. STOCK OPTIONS

Year ended December 31,	1994	1993	1992
Number of shares under option at beginning of year	**383,700**	387,380	405,395
Options granted	**143,000**	78,500	85,500
Options exercised	**(9,800)**	(68,420)	(101,975)
Options cancelled	**(20,980)**	(13,760)	(1,540)
Number of shares under option at end of year	**495,920**	383,700	387,380

Under the Corporation's stock option plan, full time key employees were granted options to purchase unissued common shares. At December 31, 1994, the following options were outstanding:

Expiry Date	Option Price per Share	Number of Shares
June 6, 1995	17.67	1,000
June 5, 1996	19.55	3,500
June 3, 1997	22.86	25,000
August 3, 1998	22.86	37,940
August 2, 1999	22.86	44,020
August 7, 2001	23.46	91,660
November 4, 2002	24.875	75,800
December 8, 2003	32.375	74,000
May 5, 2004	30.375	20,000
November 3, 2004	29.00	123,000
		495,920

16. RELATED PARTY TRANSACTIONS AND MAJOR CUSTOMERS

The U.S. Master Limited Partnership, which does not have any employees, uses the services of the Corporation for managing and operating the Lakehead System. These services, which are charged at cost in accordance with service agreements, amounted to $48.1 million (1993 – $44.4 million; 1992 – $37.4 million). Accounts receivable include $1.7 million due from the Partnership (1993 – $2.8 million).

Transportation revenue received from major customers was as follows:

Year ended December 31,	1994	1993	1992
Imperial Oil Limited	**104.1**	105.0	115.4
Amoco Corporation	**56.1**	61.5	53.1

Trade receivables relating to crude oil pipeline operations consist primarily of amounts due from companies operating in the oil and gas industry and are collateralized by the crude oil and other products contained in the Corporation's pipeline and storage facilities.

Gas distribution operations are concentrated in central and eastern Ontario. Credit risk with respect to trade receivables is reduced by the large and diversified customer base, and the ability to recover an estimate for doubtful accounts through the ratemaking process. The allowance for doubtful accounts receivable was $15.2 million at December 31, 1994.

17. POSTRETIREMENT BENEFITS

Pension Plans

The Corporation has contributory and non contributory defined benefit pension plans which cover substantially all employees. Retirement benefits are based on the employees' years of service and remuneration. Contributions made by the Corporation are in accordance with independent actuarial valuations and are invested primarily in publicly traded equity and fixed income securities.

For pipeline operations, pension costs reflect management's best estimates of the rate of return on pension plan assets, rate of salary increases and various other factors including mortality rates, terminations and retirement ages. Adjustments arising from plan amendments, experience gains and losses, and changes to assumptions, are amortized over the expected average remaining service lives of the employees.

For the gas distribution segment, the Corporation records pension expense equal to contributions, which are made in accordance with periodic independent actuarial valuations. Funding contributions are determined based on the anticipated rate of return on plan assets, rate of salary increases and various other factors including mortality rates, terminations and retirement ages so as to fully fund the plan over an acceptable time frame.

The status of the Corporation's pension plans were as follows:

December 31,	1994	1993
Pension plan assets at market values:		
IPL System	**106.0**	113.6
Lakehead System	**73.1**	73.9
Gas Distribution	**393.3**	–
	572.4	187.5
Projected benefit obligations:		
IPL System	**94.2**	88.8
Lakehead System	**53.5**	56.0
Gas Distribution	**272.0**	–
	419.7	144.8

The Corporation's pension cost amounted to $2.4 million (1993 – $1.0 million; 1992 – $3.5 million) and the deferred pension asset was $10.8 million (1993 – $7.1 million).

Postretirement Benefits Other than Pensions

The cost of providing postretirement benefits other than pensions amounted to $0.6 million (1993 – $0.4 million; 1992 – $0.4 million).

18. FINANCIAL INSTRUMENTS

Fair Value of Financial Instruments

The following table presents the carrying amounts and estimated fair values of the Corporation's financial instruments:

December 31,	1994		1993	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets				
Short term investments	**36.4**	**36.4**	49.6	49.6
Instalment receipts receivable	**307.6**	**307.6**	–	–
Receivable from Home Oil	**125.0**	**125.0**	125.0	125.0
Investment in U.S. Master Limited Partnership	**37.4**	**162.9**	17.4	179.6
Liabilities				
Short term borrowings	**350.7**	**350.7**	4.0	4.0
Series J Debentures	**125.0**	**125.0**	125.0	125.0
Convertible Debentures	**492.1**	**429.9**	–	–
Long term debt				
Regulated	**1,942.4**	**1,995.8**	611.1	682.8
Non regulated	**973.9**	**979.1**	–	–

The following methods and assumptions were used to estimate the fair value of each class of financial instruments at December 31, 1994 and 1993:

- The carrying amount of *short term investments* approximates fair value because of the short maturity of these instruments. Short term investments consist primarily of debt instruments issued by governments and high credit quality institutions.
- The carrying amounts of *instalment receipts receivable* and the *receivable from Home Oil* approximate fair value because of the contractual and short term nature of the receivables.
- The fair value of the Corporation's *investment in the Partnership* is based on quoted market prices at year end for the Partnership's publicly traded Preference Units.
- The carrying amount of *short term borrowings* approximates fair value because of the short maturity of these instruments.
- The carrying amount of *Series J Debentures* approximates fair value because of the offsetting receivable from Home Oil and in 1994, the short term to maturity of these debentures.
- The fair value of *Convertible Debentures* is based on quoted market prices at year end.
- The fair value of *regulated long term debt* is based on quoted market prices at year end for the same or similar instruments or based on the discounted future cash flows of each debt issue at its estimated yield to maturity. Due to the regulatory nature of business operations, the Corporation has the ability to recover interest at existing rates.
- The fair value of *non regulated debt* is based on quoted market prices at year end for the same or similar instruments.

Off Balance Sheet Financial Instruments

At year end, the Corporation was party to the following off balance sheet financial instruments:

December 31,	1994		1993	
	Notional Principal or Quantity	Maturity	Notional Principal or Quantity	Maturity
Forward foreign exchange contracts	**139.8**	**Oct. 95**	129.9	Jul. 94
Forward rate agreements and interest rate swaps	**315.3**	**Sept. 96**	–	–
Natural gas price swaps (billion cubic feet)	**76.6**	**Oct. 95**	–	–

The forward foreign exchange contracts are used to match the effect of translating Canadian dollar denominated monetary items held by an integrated U.S. subsidiary.

Forward rate agreements and interest rate swaps protect the Corporation against the impact of future interest rate movements on its working capital and longer term debt financing requirements for natural gas distribution activities. The Corporation uses these instruments to convert both variable rates to fixed rates and fixed rates to variable rates on underlying financial instruments by agreeing with other parties to exchange, at specified intervals, the difference between fixed rate and floating rate interest amounts calculated by reference to an agreed notional principal amount.

The prices in the majority of the Corporation's system supply gas contracts are indexed to the New York Mercantile Exchange (NYMEX) natural gas futures contracts plus a basis differential. The Corporation has undertaken a natural gas price risk management program, on behalf of its customers, to manage the price volatility of its forecasted system gas supply. At December 31, 1994, the Corporation had entered into natural gas price swaps to effectively fix the NYMEX index price and the related U.S. exchange rate for approximately 33% of the Corporation's forecast 1995 system gas supply. Under outstanding gas price swap agreements, the Corporation receives an amount based on a price which varies with the NYMEX futures price (converted to Canadian dollars) and pays a fixed amount (in Canadian dollars) on an agreed upon notional quantity of natural gas. There is no obligation to receive or deliver actual quantities of natural gas under these contracts. Under these swaps, the Corporation makes or receives payments based on the differential between the fixed and variable prices. The OEB noted that it did not object to the use of gas supply risk management by the Corporation. However, the OEB also stated that it would continue with its historical practice of conducting annual reviews of the prudency of gas acquisition activities with such reviews to be expanded to include the Corporation's risk management activities.

The fair value of off balance sheet financial instruments reflects the estimated amounts that the Corporation would receive or pay to terminate the contracts at the reporting date, calculated as the difference between the present value of estimated future receipts and future payments under the terms of each agreement or swap. At December 31, 1994 and 1993, the fair value of the forward foreign exchange contracts, forward rate agreements and interest rate swaps was immaterial. The fair value of the natural gas price swaps was $15.7 million payable at December 31, 1994. The Corporation expects that any changes in the fair value of forward rate agreements, interest rate swaps and natural gas price swaps will be recovered or refunded through the regulatory process.

The Corporation is exposed to credit losses in the event of non performance by counterparties to financial instruments. Because it deals only with high credit quality institutions in arranging these instruments, the Corporation does not obtain collateral or other security to support financial instruments subject to credit risk and does not expect any counterparties to fail to meet their obligations.

At year end, there were no gains or losses explicitly deferred in relation to any of the Corporation's off balance sheet hedges of anticipated transactions.

19. COMMITMENTS AND CONTINGENCIES

In connection with the transfer of the Lakehead System to the Partnership, Lakehead will indemnify the Partnership from and against substantially all liabilities, including liabilities relating to environmental matters, arising from operations prior to the transfer. This indemnification does not apply to amounts that the Partnership would be able to recover in its tariffs or from insurance or to any liabilities relating to a change in laws after December 27, 1991. In addition, in the event of default, Lakehead, as the General Partner, is subject to recourse with respect to the Partnership's long term debt which amounted to U.S. $364.0 million at December 31, 1994.

Lakehead, with an indemnification from the Corporation, has agreed to support the minimum quarterly distributions on the 82% limited partnership interests held by the public to a cumulative maximum of U.S. $60.0 million until December 31, 1996. To date, no support payments have been required under this agreement.

The Corporation is subject to recourse with respect to the long term debt of a long term investee which amounted to $60.5 million at December 31, 1994.

Consumers Gas is aware that the remediation of discontinued manufactured gas plant sites may become an issue in the future. The probable overall cost of remediation measures cannot be determined at this time due to uncertainty about the existence or extent of environmental risks, the complexity of laws and regulations particularly with respect to sites decommissioned years ago and no longer owned by Consumers Gas, and the selection of alternative remediation approaches. Although there are no known regulatory precedents in Canada, there are precedents in the United States for recovery of costs of a similar nature in rates. Consumers Gas expects that, if it is found that it must contribute to any remediation costs, it would be generally allowed to recover in rates those costs not recovered through insurance or by other means and believes that the ultimate outcome of these matters would not have a significant impact on its financial position.

A class action has been commenced against Consumers Gas by a customer alleging that the OEB approved late payment penalties charged to customers are contrary to federal law. The claim seeks $112 million in restitutionary payments and other relief on behalf of former and current customers (the Class) who have paid or been charged such penalties since April 1, 1981. The customer is seeking to be certified to represent the Class. Consumers Gas is continuing to collect the penalties and is defending the action.

In December 1994, the Corporation entered into a Subscription Agreement with a company in Colombia in which the Corporation holds a 17.5% interest. Under the terms of the agreement, the Corporation is required to purchase additional shares from time to time upon the call of that company. At December 31, 1994, the Corporation had paid U.S. $14.9 million for shares and had a remaining commitment of up to U.S. $91.6 million.

20. UNITED STATES ACCOUNTING PRINCIPLES

The consolidated financial statements of the Corporation have been prepared in accordance with Canadian generally accepted accounting principles. These principles conform in all material respects to those in the United States (U.S. GAAP), except for the following:

(i) Foreign Currency Translation

Under U.S. GAAP, the Corporation's U.S. deferred income tax liability relating to its integrated foreign operations is considered a monetary item. Consequently, the liability would be translated to Canadian dollars using the rate of exchange in effect at the date of the statement of financial position. The application of this translation method would result in a foreign exchange loss of $12.4 million for 1994. Combined with a loss of

$9.0 million for 1993, the deferred income taxes liability would increase by $21.4 million at December 31 1994. Therefore, earnings for the year ended December 31, 1994 would have been restated to $31.2 million (1993 – $71.8 million) or $0.78 per share (1993 – $1.80 per share). The Corporation did not have integrated foreign operations prior to 1993.

(ii) Deferred Income Taxes

Statement of Financial Accounting Standards (SFAS) No. 109, "Accounting for Income Taxes", requires adjustments to deferred income tax liabilities for changes in income tax rates and the recognition of deferred assets and credits for situations applicable specifically to regulated enterprises. SFAS No. 109 also prohibits the use of the taxes payable method of accounting and requires the recognition of a deferred tax liability for the allowance for equity funds used during construction (AEDC).

The Corporation's deferred income tax liability, as recorded at historical income tax rates, includes $208.0 million (1993 – $212.9 million) related to the investment in the U.S. Partnership, $145.7 million (1993 – $147.4 million) related to regulated pipeline operations in Canada, and $7.5 million related to the gas distribution segment. The remainder of the consolidated deferred income tax liability arose primarily from tax deferrals resulting from a long term investment acquired in 1993.

The application of lower current income tax rates to the recorded deferred income tax liability related to regulated operations in Canada would have resulted in a reduction in the liability. However, an offsetting deferred credit, reflecting the amount to be refunded in future through the regulatory process, would have been recognized. The application of lower income tax rates to the historical deferred income tax liability related to non regulated operations would not have had a material impact on 1994 or 1993 consolidated earnings or the deferred income tax liabilities at December 31, 1994 or 1993. More significantly, the deferred income tax liability would have been increased to reflect amounts not recorded under the taxes payable method and to recognize the impact of AEDC on income taxes. However, an offsetting deferred asset, reflecting the expected future recovery of such income taxes through the regulatory process when they become payable, would have been recognized.

With respect to these matters, the application of SFAS No. 109 would have resulted in an increase of $703.6 million in deferred income tax liabilities at December 31, 1994 (1993 – $33.0 million). Correspondingly, a deferred credit of $29.3 million (1993 – $31.8 million) and a deferred asset of $732.9 million (1993 – $64.8 million) would have been recognized in the consolidated statement of financial position. There would have been no impact on 1994 or 1993 consolidated earnings.

For a business combination accounted for as a purchase, SFAS No. 109 requires an additional deferred income tax liability be recognized for the excess of the purchase price over the net book value of the assets acquired and liabilities assumed. Correspondingly, the allocation of the purchase price would have been adjusted to reflect the recognition of this liability at the date of acquisition. The application of SFAS No. 109 would have resulted in an increase of $359.9 million in both property, plant and equipment and deferred income tax liability at December 31, 1994. In addition, depreciation expense would have increased and deferred income tax expense would have decreased by $2.0 million.

(iii) Pension Plans

SFAS No. 87, "Employers' Accounting for Pensions", requires that pension expense be determined using the accrual basis of accounting. The operating segments of the consolidated group currently account for pension costs either on an accrual or a funding basis depending on their allowed method of recovery, as determined in their respective regulatory jurisdictions.

In addition, under U.S. GAAP, a portion of the purchase price relating to the acquisition of Consumers Gas is allocated to the unrecognized excess of pension plan assets over the projected benefit obligations at the date of acquisition. However, an offsetting deferred liability, reflecting the expected future refund of such excess through the regulatory process, would be recognized. Accordingly, deferred charges and other assets would have increased by $54.0 million with a corresponding increase to deferred credits of $96.5 million and a decrease of $42.5 million to deferred income taxes at the date of acquisition.

The application of the accrual basis of accounting for pension plan expenses on a consolidated basis has no impact on earnings as any difference from the allowed method of recovery would be recognized as a regulatory asset or liability and would be recovered or refunded, respectively, through the regulatory process. Accordingly, at December 31, 1994, the application of SFAS No. 87 would have resulted in the recognition of an additional net pension asset of $1.9 million with a corresponding increase to deferred credits of $3.3 million and a decrease to deferred taxes of $1.4 million.

SFAS No. 87 also requires the following additional disclosure with respect to the Corporation's pension plans:

Projected Benefit Obligations

December 31,	1994	1993
Actuarial present value of accrued pension benefits		
Vested	**309.2**	102.7
Non vested	**12.5**	11.0
Accumulated benefit obligations	**321.7**	113.7
Additional amounts related to future salary increases	**98.0**	31.1
Projected benefit obligations	**419.7**	144.8

Net Pension Asset

December 31,	1994	1993
Pension plan assets in excess of projected benefit obligations	**152.7**	42.7
Unrecognized pension plan surplus	**(57.6)**	(7.5)
Unrecognized net gain	**(28.4)**	(28.1)
Net pension asset under U.S. GAAP	**66.7**	7.1

Pension Cost

Year ended December 31,	1994	1993	1992
Benefits earned during the year	**6.4**	4.6	4.7
Interest cost on projected benefit obligations	**17.1**	11.3	10.9
Return on plan assets	**(19.2)**	(18.5)	(9.0)
Amortization and deferral of unrecognized amounts	**(5.5)**	3.4	(4.4)
Amount credited to the Partnership	**0.4**	0.2	1.3
Pension cost (credit) under U.S. GAAP	**(0.8)**	1.0	3.5

Economic Assumptions

The most significant economic assumptions made in the measurement of the pension costs and the projected benefit obligations of the pension plans were as follows:

Year ended December 31,	1994	1993	1992
Discount rate	**8.0 – 8.5%**	8.5%	8.5%
Average rate of salary increases	**5.5 – 5.8%**	5.5%	6.5%
Average rate of return on pension plan assets	**8.0 – 8.5%**	8.5%	8.5%

(iv) Postretirement Benefits

SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions", requires the accrual, during the years the employees render service, of the expected cost of providing postretirement health care and life insurance to employees, their beneficiaries and qualified dependants. SFAS No. 106 is effective for fiscal years beginning after December 15, 1992 with the exception of plans outside the United States, for which it becomes effective two years thereafter.

In 1993, the Corporation adopted SFAS No. 106 for postretirement benefit plans in the United States. The transition obligation for these employees amounted to U.S. $14.6 million, which is being amortized over the employees' expected average remaining service lives. For the year ended December 31, 1994, the costs recorded amounted to U.S. $2.4 million (1993 – U.S. $2.3 million), which included U.S. $0.7 million (1993 – U.S. $0.7 million) related to the amortization of the transition obligation. Pursuant to the Partnership agreements, such costs, which are funded annually, are recovered from the Partnership. Consequently, the application of SFAS No. 106 for plans in the United States did not affect the consolidated results. The effect of applying SFAS No. 106 to the Canadian plans has not been determined.

(v) Consolidated Statement of Financial Position

In summary, the following items in the consolidated statements of financial position as at December 31 would have been restated on a U.S. GAAP basis as follows:

	1994	1993
Deferred charges and other assets	**943.3**	117.5
Property, plant and equipment, net	**4,411.8**	1,127.0
Deferred credits	**141.5**	34.4
Deferred income taxes	**1,439.8**	441.9
Retained earnings	**176.6**	225.6

(vi) Consolidated Statement of Cash Flows

The consolidated statement of cash flows reflects changes in the short term borrowings of the gas distribution segment in cash from operating activities, as these borrowings relate primarily to the purchase of gas in storage. Under SFAS No. 95, "Statement of Cash Flows", changes in short term borrowings are classified as a financing activity. Accordingly, for the year ended December 31, 1994, under this requirement cash from operating activities would have been $9.7 million and cash provided from financing activities would have been $1,381.1 million.

SFAS No. 95 also requires disclosure of interest and income taxes paid. Interest paid, net of amounts capitalized, was $124.1 million (1993 – $67.8 million; 1992 – $71.6 million). Income taxes paid amounted to $69.1 million (1993 – $42.0 million; 1992 – $59.8 million).

Selected Quarterly Financial Data

1994 Quarters (dollars in millions, except per share amounts)	First	Second	Third[1]	Fourth[1]	Total
Operating revenue	102.0	94.7	99.7	295.1	591.5
Operating income	36.2	29.8	34.7	16.1	116.8
Earnings before acquisition of Consumers Gas	20.3	18.5	33.2	16.5	88.5
Earnings	20.3	17.1	19.8	(13.6)	43.6
Cash provided from operating activities	44.6	87.4	18.4	49.3	199.7
Earnings per share	0.51	0.43	0.49	(0.34)	1.09
Dividends per share	0.50	0.50	0.50	0.50	2.00

1993 Quarters (dollars in millions, except per share amounts)	First	Second	Third	Fourth	Total
Operating revenue	97.9	95.6	100.9	100.8	395.2
Operating income	32.4	30.1	38.9	35.0	136.4
Earnings	13.9	23.5	31.3	12.1	80.8
Cash provided from operating activities	30.1	27.3	39.2	37.3	133.9
Earnings per share	0.35	0.59	0.79	0.30	2.03
Dividends per share	0.50	0.50	0.50	0.50	2.00

1 Comparability is affected by the June 30, 1994 acquisition of Consumers Gas and the implementation of the quarter lag basis of consolidation.

Quarterly Share Trading Information

TSE (The Toronto Stock Exchange)

1994 Quarters (dollars)	First	Second	Third	Fourth
High	34 1/4	32 1/4	30 3/8	29 1/8
Low	30 1/2	27 1/4	28 5/8	26 7/8
Close	31 1/4	28 5/8	28 7/8	28 1/2
Volume (thousands)	4,785	4,855	3,496	3,216

1993 Quarters (dollars)	First	Second	Third	Fourth
High	26 1/8	28 7/8	30 7/8	33
Low	22 3/8	25 7/8	27 3/4	28 5/8
Close	26 1/8	28 3/8	29	32 1/4
Volume (thousands)	6,570	5,633	3,227	5,047

NASDAQ (The National Association of Securities Dealers Automated Quotation System)

1994 Quarters (U.S. dollars)	First	Second	Third	Fourth
High	25 1/2	23 3/4	22 1/4	21 1/8
Low	22 1/2	19 3/4	20 1/2	19 1/2
Close	22 1/2	20 17/64	21 3/8	20 5/16
Volume (thousands)	38	39	42	37

1993 Quarters (U.S. dollars)	First	Second	Third	Fourth
High	21 1/4	22 3/4	24 1/4	25
Low	17 3/8	20 1/4	21	21 1/4
Close	20 1/4	21 7/8	22 1/2	24
Volume (thousands)	108	51	92	58

Five Year Consolidated Highlights[1]

(dollars in millions, except per share amounts)	1994	1993	1992	1991	1990
Segmented Earnings					
IPL System	**47.5**	42.4	40.4	36.0	35.5
IPL(NW) System	**14.0**	14.2	14.1	14.2	14.1
Lakehead System	**12.6**	9.4	8.7	42.9	57.0
Corporate	**14.4**	14.8	12.3	0.1	(1.5)
	88.5	80.8	75.5	93.2	105.1
Gas Distribution	**(17.7)**	–	–	–	–
After Tax Acquisition Financing Costs	**(27.2)**	–	–	–	–
After Tax Gain on U.S. Partnership Transaction	**–**	–	–	251.5	–
Earnings Before Discontinued Oil and Gas Operations	**43.6**	80.8	75.5	344.7	105.1
Discontinued Oil and Gas Operations	**–**	–	–	(7.5)	38.9
Earnings	**43.6**	80.8	75.5	337.2	144.0
Cash Flow Data					
Cash provided from operating activities	**199.7**	133.9	115.2	180.5	197.4
Capital expenditures	**(376.6)**	(82.9)	(116.1)	(118.1)	(97.4)
Regular dividends paid	**(80.2)**	(79.8)	(79.6)	(79.3)	(79.2)
Special dividend paid	**–**	–	(278.4)	–	–
Financial Position					
Property, plant and equipment, net	**4,051.9**	1,127.0	1,113.4	1,062.6	1,361.9
Total assets	**5,346.1**	1,666.6	1,663.9	1,895.4	2,081.3
Long term debt (including current portion)[2]	**3,408.4**	611.1	599.4	569.8	587.2
Total liabilities	**4,899.7**	1,203.4	1,205.0	1,436.7	975.8
Shareholders' equity	**446.4**	463.2	458.9	458.7	1,105.5
Operating Data					
Pipeline					
Operating revenue	**397.4**	395.2	392.4	626.7	622.2
Deliveries (thousands of barrels per day)	**1,532**	1,497	1,454	1,443	1,439
Barrel miles (billions)	**350**	346	340	671	691
Average haul (miles)	**625**	634	638	1,274	1,315
Gas Distribution					
Operating revenue	**194.1**	–	–	–	–
Gas distribution volumes (billion cubic feet)	**44.4**	–	–	–	–
Number of active customers at year end (thousands)	**1,219**	–	–	–	–
Degree day deficiency (degrees celsius)[3]	**104**	–	–	–	–
Shareholder and Investor Information					
Average shares outstanding weighted monthly during the year (thousands)	**40,086**	39,889	39,802	39,663	39,628
Number of registered shareholders at year end	**7,929**	7,590	7,484	6,511	7,070
Share Trading (TSE)					
High	**34 1/4**	33	34 7/8	49 1/2	50 1/2
Low	**26 7/8**	22 3/8	21 7/8	28 5/8	42 3/4
Close	**28 1/2**	32 1/4	23	32 3/8	47 3/4
Volume (thousands)	**16,352**	20,477	7,289	4,859	2,066

	1994	1993	1992	1991	1990
Per Share Data					
Earnings before Discontinued Oil and Gas Operations	**1.09**	2.03	1.90	8.69	2.65
Earnings	**1.09**	2.03	1.90	8.50	3.64
Cash provided from operating activities	**4.98**	3.36	2.89	4.55	4.98
Dividends declared	**2.00**	2.00	2.00	9.00	2.00

1 Comparability of the above is affected by the acquisition of Consumers Gas on June 30, 1994, the U.S. Master Limited Partnership transaction on December 27, 1991 and the distribution of the Corporation's ownership in Home Oil on May 1, 1991 (Notes 2, 3 and 11 to the Consolidated Financial Statements, respectively).

2 Excluding Series J Debentures (assumed by Home Oil).

3 Degree day deficiency is a measure of coldness. It is calculated by accumulating for each day in the fiscal period the total number of degrees by which the daily mean temperature fell below 18 degrees celsius. The figures given are those accumulated in the Toronto area.

Financial Ratios[1]

	Proforma 1994[2]	1994	1993	1992	1991	1990
Return on average shareholders' equity[3]	**16.0%**	**9.6%**	17.5%	16.4%	19.5%	23.3%
Return on average capital employed[4]	**7.3%**	**4.2%**	7.4%	7.4%	9.6%	10.5%
Debt/debt plus shareholders' equity						
Including project debt[5]	**72.6%**	**88.4%**	57.1%	58.2%	55.4%	56.3%
Excluding project debt	**71.1%**	**87.9%**	47.0%	47.3%	40.8%	41.0%
Debt/total capital employed						
Including project debt	**65.0%**	**79.8%**	41.3%	43.0%	40.4%	44.6%
Excluding project debt	**60.6%**	**75.7%**	27.6%	27.6%	22.4%	24.1%
Earnings coverage of interest[6]						
Including project debt	**2.2x**	**1.3x**	3.3x	2.9x	3.6x	3.9x
Excluding project debt	**2.4x**	**1.5x**	6.5x	5.8x	7.2x	8.3x
Regular dividend payout ratio[7]	**71.7%**	**183.5%**	98.5%	105.3%	85.1%	75.4%

1 Exclude Discontinued Oil and Gas Operations, and the Series J Debentures for which there is a corresponding long term receivable from Home Oil.

2 The 1994 financial ratios were negatively affected by the one time impact of the acquisition of Consumers Gas and the issuance of Convertible Debentures to finance the acquisition. For comparative purposes, proforma 1994 ratios have been calculated assuming a full year's contribution from Consumers Gas and the full conversion of the Convertible Debentures at the beginning of the year.

3 Earnings (excluding the 1991 gain on the U.S. Master Limited Partnership transaction and Discontinued Oil and Gas Operations) divided by average shareholders' equity. For 1991 shareholders' equity is before the after tax gain on the U.S. Master Limited Partnership transaction and the special dividend.

4 Sum of earnings (excluding the 1991 gain on the U.S. Master Limited Partnership transaction and Discontinued Oil and Gas Operations) and after tax interest expense divided by average capital employed. Capital employed is equal to the sum of shareholders' equity, deferred income taxes, deferred credits and total long term debt. For purposes of calculating the average capital employed in 1991, shareholders' equity is before the after tax gain on the U.S. Master Limited Partnership transaction and the special dividend, and deferred income taxes exclude the tax on the transaction gain.

5 Project debt comprises debt related to the Montreal Extension which is supported by a Deficiency Agreement with the Government of Canada and debt related to the IPL(NW) System which is secured by a long term contract with the major shipper.

6 Sum of pretax earnings (excluding the 1991 gain on the U.S. Master Limited Partnership transaction and Discontinued Oil and Gas Operations) and interest expense, divided by interest expense.

7 Regular dividends divided by earnings (excluding the 1991 gain on U.S. Master Limited Partnership transaction and Discontinued Oil and Gas Operations).

Corporate Information

BOARD OF DIRECTORS

J. Lorne Braithwaite[1]
President & Chief Executive Officer
Cambridge Shopping Centres Limited
Toronto, Ontario

William A. Dimma[2,3]
Company Director
Toronto, Ontario

F. William Fitzpatrick[1]
Company Director
Paradise Valley, Arizona

Louis D. Hyndman[3]
Senior Partner
Field & Field Perraton
Edmonton, Alberta

Brian F. MacNeill
President & Chief Executive Officer
IPL Energy Inc.

H. Gordon MacNeill[2]
Chairman
Jannock Limited
Toronto, Ontario
Chairman
IPL Energy Inc.

Robert W. Martin[1,2]
Chairman
Silcorp Limited
Toronto, Ontario

Earl H. Orser[1]
Chairman
Spar Aerospace Limited
Toronto, Ontario
Honorary Chairman
London Life Insurance Company
London, Ontario

David E. Powell[3]
President & Chief Executive Officer
Home Oil Company Limited
Calgary, Alberta

Donald J. Taylor[3]
Company Director
Jacksons Point, Ontario

1 Member of Audit Committee
2 Member of Compensation Committee
3 Member of Safety & Environment Committee

SENIOR MANAGEMENT

Mel F. Belich
Senior Vice President, General Counsel & Corporate Secretary

Patrick D. Daniel
Senior Vice President
President & Chief Operating Officer
Interprovincial Pipe Line Inc.

Brian F. MacNeill
President & Chief Executive Officer

Ronald D. Munkley
Senior Vice President
President & Chief Executive Officer
The Consumers' Gas Company Ltd.

Benny J. Phillips
Senior Vice President International

R. Hugh B. Sangster
Senior Vice President
President & Chief Operating Officer
Lakehead Pipe Line Company, Inc.

Derek P. Truswell
Senior Vice President & Chief Financial Officer

SHAREHOLDER INFORMATION

Registrar and Transfer Agent in Canada

The R-M Trust Company
393 University Avenue
Fifth Floor
Toronto, Ontario
M5G 2M7
Telephone: (416) 813-4600
Toll Free: (800) 387-0825

The R-M Trust Company also has offices in Halifax, Montreal, Calgary, Regina and Vancouver.

Co-Registrar and Co-Transfer Agent in the United States

Chemical Bank
450 West 33rd Street
New York City, New York
U.S.A. 10001
Attention: Stock Transfer
Telephone: (212) 613-7200
Toll Free: (800) 851-9677

Inquiries regarding the dividend reinvestment and share purchase plan, change of address, share transfer, lost certificates, dividends, and duplicate mailings should be directed, as appropriate, to The R-M Trust Company in Canada or to Chemical Bank in the United States.

Other inquiries may be addressed to:

Manager, Investor Relations
IPL Energy Inc.
3100 Bow Valley Square II
205 – 5 Avenue S.W.
Calgary, Alberta
T2P 2V7
Telephone: (403) 231-3906
Toll Free: (800) 481-2804
Facsimile: (403) 231-3920

STOCK TRADING

The common shares of IPL Energy Inc. trade in Canada on the Toronto and Montreal stock exchanges under the ticker symbol "IPL", and in the United States on NASDAQ-NMS under "IPPIF".

DIVIDEND REINVESTMENT AND SHARE PURCHASE PLAN

IPL Energy Inc. offers a Dividend Reinvestment and Share Purchase Plan which enables shareholders to reinvest their cash dividends in common shares at a 5% discount to market, and to make additional cash payments for purchases at the market price. Details may be obtained by contacting The R-M Trust Company at any of the locations listed above.

FORM 10-K

The Corporation files annually with the Securities and Exchange Commission of the United States a report known as the Annual Report on Form 10-K. Copies of the Form 10-K are available to shareholders, free of charge, upon written request to the Corporation.

TRUSTEE AND REGISTRAR FOR DEBENTURES

Montreal Trust Company
Montreal, Toronto, Winnipeg, Edmonton and Vancouver

AUDITORS

Price Waterhouse
Edmonton, Alberta

ANNUAL MEETING

The Annual Meeting of Shareholders will be held at The Metropolitan Convention Centre, Calgary, Alberta, Canada at 11:30 a.m. on Thursday, May 4, 1995.

REGISTERED OFFICE

IPL Energy Inc.
3100 Bow Valley Square II
205 – 5 Avenue S.W.
Calgary, Alberta
T2P 2V7
Telephone: (403) 231-3900
Facsimile: (403) 231-3920

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